

**REVIEW OF INDUSTRY PLANS TO
STABILIZE THE FINANCIAL CONDITION
OF THE AMERICAN AUTOMOBILE INDUSTRY**

HEARING
BEFORE THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED TENTH CONGRESS
SECOND SESSION

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REVIEW OF INDUSTRY PLANS TO STABILIZE THE FINANCIAL CONDITION OF THE AMERICAN AUTOMOBILE INDUSTRY

Friday, December 5, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 9:30 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Kanjorski, Waters, Maloney, Watt, Ackerman, Sherman, Moore of Kansas, Capuano, McCarthy of New York, Lynch, Miller of North Carolina, Scott, Green, Cleaver, Bean, Moore of Wisconsin, Hodes, Klein, Wilson, Perlmutter, Donnelly, Foster, Speier; Bachus, Castle, King, Royce, Lucas, Manzullo, Biggert, Capito, Hensarling, Garrett, Brown-Waite, Barrett, Gerlach, Price, and McCotter.

Also present: Representatives Kaptur and Levin.

Also present: Senator Stabenow.

The CHAIRMAN. This hearing will come to order. We are going to be very strict with time today. Because this is an important issue, there is a lot to be done. Members will be held strictly to 5 minutes, which means if you ask a question that takes 4 minutes and 47 seconds to ask, you will get a 13 second answer. And we cannot accommodate, frankly, sloppiness in asking questions, and then let that be an excuse for extending the time. Under our rules, the minimum amount of time we can do for opening statements is 40 minutes. The Minority has requested the full allocation, so we will proceed immediately to our 40 minutes of opening statements. We started a half hour early, so we will get started at 10:00.

We are going to dismiss this panel at 12:30. Because we did not want it to be simply the auto industry itself, we have a second panel as well, so we will move as quickly as we can under the 5-minute rule.

I will begin with my opening statement, and the clock starts now. Context is especially important this morning. A failure to some extent of three of our major domestic manufacturing entities would be a very serious problem in any case, but in the midst of the worst economic situation since the Great Depression, it would be an unmitigated disaster. The Labor Department reported this morning that during the month of November, there was an increase in unemployment that was quite substantial; 533,000 jobs were lost. On a year-to-year basis from December of last year to

December of this year, we are down 1.9 million jobs. We are on track now to lose well over 2 million jobs obviously in that period. We will lose close to 2 million jobs in this year alone. Given that, any effort to denigrate the negative impact of substantial job loss and economic cutbacks in this industry has to fall. We operate, as we said, in this very difficult context.

It is important to note here that—and, again, I guess the issue is, should we just be very hard-nosed and say let them go bankrupt? There is a consensus that substantial reorganization is needed, there is a consensus that a change in the product mix is needed, there is a consensus, and I congratulate Mr. Gettelfinger in the Union that economic times being what they are, everything has to be looked at, including further concessions which the Union had already made, and there was some very important ones that were put out there. All of that can be done by rational people in a sensible atmosphere. What bankruptcy adds is the ability to walk away from debt. The fact is that while we have this serious job loss, we continue to have a serious credit crisis in this country. We have a double whammy. And permission to these three large entities to stop paying their debts, that is called bankruptcy, would greatly exacerbate the credit crisis.

I was given by my colleague from Michigan, Mr. Levin, who has been, along with the other Members from Michigan, both Democratic and Republican obviously, very much involved in this, as well as the Members from Ohio, very important numbers about what the impact would be if we were to have these entities stop paying their debts. Now, we have had a pattern of intervention that this Administration has led of trying to prevent people from not paying their debts. Not because of concern for them, but because of the impact it would have on other people, on the creditors. We have not, on the whole, bailed out debtors. We have gone to the rescue of creditors.

In every one of those cases, there have been restrictions imposed on the debtors. That will clearly have to be done here, and everyone should understand that. The companies have made some proposals. I hope we will do something, because I think for us to do nothing, to allow bankruptcies and failures in 1, 2, or 3 of these companies in the midst of the worst credit crisis and the worst unemployment situation that we have had in 70 years would be a disaster. And one of the things that I do want to note, that people have said, well, you know, a lot of mistakes were made, the companies made mistakes, Congress made some mistakes, we didn't increase CAFE standards, etc. Yes, a lot of mistakes were made. The relevance of that it is partly this.

It would be nice if we could line up all the people who made the mistakes and punish them in a way that would make no impact on the innocent. I think all of us remember in school the teachers we hated most were the teachers who said if one person misbehaved, the whole class would get extra homework. I don't want to give the whole country extra homework because automobile executives in the past misbehaved. We have to separate out unhappiness and anger over things not done in the past from the consequences now, and that is what we have focused on. Yes, a lot of mistakes were made. The auto companies made mistakes, unions

made mistakes, politicians made mistakes. The media hasn't always distinguished itself, although you are not supposed to say that. The consequence of all those mistakes is that the country is to some extent held hostage. We need to free the country. And that is the focus.

Yes, there have to be changes that are made and sacrifices made. But the focal point is not to punish those who made the mistakes. It is to prevent further damage to the country, and it is in that context that this committee will proceed. The gentleman from Alabama is now recognized for how many minutes?

Mr. BACHUS. Five.

The CHAIRMAN. Five minutes.

Mr. BACHUS. Thank you, Mr. Chairman. Mr. Chairman, I want to begin by noting that before the present financial crisis hit, many of the trends in the domestic automobile industry were positive. The unions had made concessions, the cost had come down, the quality was up. Perception, I don't think, has caught up with reality in that regard. The reality is that Detroit is making good cars. Having said that, our number one obligation must be the taxpayer. But we must also recognize that a failure of GM or Chrysler would have a detrimental effect on America, particularly at a time when our economy is under such stress. All of us should remember that government has no money of its own. In order to give, it first has to take from the American people. As I have said since day one, taking from the vast majority of citizens whose wages, health benefits, and pensions plans are less generous than those of the management and labor force at the Big 3 appears neither right nor fair.

Personally, the only course I could possibly endorse would be limited transitional assistance to allow the American domestic automobile industry to return to solvency and profitability. But then, only if there is a reasonable expectation of success. I am convinced that short of a protected restructuring of General Motors or Chrysler, the domestic automobile industry will not be successfully remade and there will be no lasting solution to the considerable challenges that it faces.

Such a restructuring is essential, not only for GM and Chrysler, but for the future of Ford and the hundreds of companies which supply and support all automobile makers in the United States, foreign and domestic. That is why I have invited Professor Edward Altman to testify at today's hearing. He proposes not a bailout, not a bridge loan, but a restructuring that promises to place the U.S. automobile industry on a path to long-term viability. Professor Altman's solution—or ones like it—certainly appears to be preferable to the continued deterioration and ultimate failure of the domestic automobile industry with its devastating consequences for the country, the economy, and the workers and families whose jobs, pensions, and health care benefits are dependent on the industry.

Let me close by saying it is a solution not by Congress that I am proposing, but by the industry itself, but with a supporting role by the U.S. Government, preferably through the participation of those financial institutions which received hundreds of billions of dollars of taxpayer money under TARP or various Federal Reserve credit facilities intended to be used for loans to the American businesses and manufacturers like GM Ford and Chrysler and their suppliers.

In the event—and I am very disappointed that lending has not been available—that taxpayer monies are still necessary to support the restructuring, monies already appropriated under the 136 program could be utilized. What we need is a solution, not a first installment. Mr. Chairman, I would like to reserve the balance of my time.

The CHAIRMAN. The gentleman has used 4 minutes. The gentleman from Pennsylvania is recognized for 5 minutes.

Mr. KANJORSKI. Mr. Chairman, we meet today again with familiar faces, and I hope we are truly driven to success, all of us today. It is not a question of whether or not we want to have an automotive industry. I have not met too many people who think America does not need one. It is a question of whether we can, and if we can, how do we get to that resolve. I just want to say that over these last troubling 2 weeks of preparing for this hearing, I have come to the conclusion that we are still talking at each other instead of to each other. I am a little disappointed with the plans submitted because although they are much better than the plans submitted 2 weeks ago, they are still tentative and not final.

I listened intently to the testimony yesterday before the United States Senate, and several elements of that testimony struck me as being very important and something we should carry on here. One part of it was the testimony of the expert on the question of how much would it really cost. In his analysis, I believe it was Dr. Anders or Ambers, indicated his estimate was \$75 billion to \$125 billion. You know, I think at least we have one realist and that is pretty good. Nothing wrong with that. At least we know when we buy into this picture, what we are buying into. As the folks left here 2 weeks ago, it was a \$25 billion request. The new submission is a \$35 billion request, and they are adding on the additional \$25 billion that is in the energy bill. That is already \$59 billion, so we are not too far from the good doctor's estimates. He is giving us another \$15 billion to \$55 billion. I think that is a reasonable range.

Now, the question is whether we should. As I have concluded in my own mind, we should maintain an American automotive industry. There is no question about that. I hear some arguments made, particularly by Labor, who are friends of mine, and they said, well, if you could give \$200 billion or \$700 billion to Wall Street why can't you give \$34 billion to the automotive industry? If we made a mistake in giving \$700 billion to Wall Street, and I don't think we did, I think we made a mistake in how we gave it to them. I don't think the conditions were sufficient to make sure we accomplish the ends that we should have had in providing that kind of liquidity to the market. But that is—even if we made a mistake, it is not a justification for this Congress to make a second mistake. And it is time to me that we don't set this off. I think the automotive industry is as important as Wall Street. And I think it is all part of the total picture that we have to get to and correct.

So I wish that argument was not made in terms of, well, you gave it to them, you now have to give it to us, and then we have a line out in front of the building here of 432 other industries, corporations, and others that have needs. Some of them are going bankrupt in my district, and I am sure they are going to ask me, "Well, Congressman, if you gave the automotive industry all that

money why can't you take care of me and allow me to continue to operate my business and take care of my family and have a reasonable existence." We are not going to be able to do that. Whether we can take care of the automobile business really should be determined here and in a very short few days ahead. I do not think we have time to right the real conditions and the real provisions that are necessary for the total recovery of the automobile industry. However, I suggest we do have time to come up with the \$4 billion necessary for General Motors and potentially \$4 billion necessary in a very short, very small bridge loan for the next 60 or 90 days to give this Congress a chance to return in January, continue working now until January, but in January in the new Congress to enact the type of legislation necessary to accomplish this end.

If we are being practical that is what we should be doing. This idea that it is late guys, and you have to pass it, you have to do it, or nothing; I am afraid a lot of people are overestimating the willingness of a goodly number of Members of Congress to play chicken. And I think it would be terrible to experience that game of chicken and see the automotive industry go down because of it. So I suggest that we need some very strong activity here to work in conjunction with the Executive Branch, both the existing Administration and the future Administration, and the Congress to come up with the conditions necessary to accomplish an end and finance long-term, for viability, the automotive industry of America.

The CHAIRMAN. Next, the gentleman from Delaware is recognized for 2 minutes.

Mr. CASTLE. Thank you, Mr. Chairman. I have no doubt the extended immediacy of the problem. You don't have to spend a lot of time, as far as I am concerned, trying to convince us of that. I think we all know it is there. I also have little doubt that we as Republicans and Democrats in the House and Senate would be willing to save the automobile industry in America if we can, but we need some sort of assurance it will work, not just your words, but plans, and we are trying to work through all that now. Then the question becomes, how do we make this work? Do we go to the bailout situation numbers, some \$25 billion to \$35 billion? Mr. Kanjorski has just talked about doing something less on an immediate basis. Do we use the Financial Services' bailout dollars which have been discussed? Could the Federal Reserve get involved in that?

Personally, I don't think that you are going to be able to borrow from the large financial institutions. In spite of the fact they have gotten advances on money, they don't want to get into dubious situations themselves at this point, so I think that is probably not correct. And I tend to agree with the statements about bankruptcy being probably more negative than positive in the long-term. So we have to come to closure as far as all of this is concerned.

I am also concerned, as I think we all are, about the other jobs out there, the suppliers and the auto dealers. As I look at it, just based on your numbers, that is more than half of the jobs involved with the automobile industry before you get into the related things, such as those who supply those people and those kinds of issues. So one question I am going to have for you is the financial stability of those entities, and are they totally dependent upon you or are

there other ways in which they are going to need help as well? I think that is an important measure in terms of what we have to worry about here.

And finally, I think we have to worry about oversight and accountability. If we go back and look at the Financial Services bailout, that is an area where perhaps we did not distinguish ourselves, and that is probably not something you really want to hear. But we may need to be more involved in sitting down with your people and determining are these plans which are working, are the steps which are being taken pursuant to those loans actually working, are we turning this around? That is a significant part of it. And I hope you would not be dismissive of that, but embracing of it in a way that we can all work together. This is taxpayers' money we are dealing with. We want to protect jobs. We want to make darn sure we protect those dollars as well with some repayment as far as the future is concerned. I yield back the balance of my time.

The CHAIRMAN. The gentlewoman from California is recognized for 2 minutes.

Ms. WATERS. Thank you, Mr. Chairman, for arranging this second hearing on America's automobile industry. Several weeks ago, the automakers came before this committee and spoke in generalities on why they need assistance from the Federal Government. At that time, there was no plan for long-term viability. Now that the automakers have submitted a plan, I am concerned—they have submitted a plan, but I am concerned about the plans that will be discussed today and how they will impact those, such as small car dealers, who are dependent on the auto industry to earn a living.

Several weeks ago, we were told that a collapse of the Big 3 would lead to the loss of 3 million jobs. Yet it seems that these plans still involve some paying for workers employed by the Big 3. GM, for example, states in their plan that they plan to cut at least 30,000 jobs by 2012. In bailing out the Big 3, we can't forget the needs of Main Street and the impact these plans will have on every day working Americans and the communities in which they live. This is true especially in light of the fact that we are still in the midst of a foreclosure crisis and America's struggling homeowners are in need of assistance. This brings me to the Nation's small car dealers. In their plans, each auto maker states that they have too many dealers and need to downsize. Ford says that it plans to work collaboratively with its dealers to reduce its dealer network. GM says that it plans to slash its dealer network by 35 percent. Chrysler simply says that it plans to rationalize its dealer network without providing any specifics. What none of them say is what the impact this rationalization, consolidation, or reduction in the number of dealers will have on those dealers and the local communities and local economies they support. On November 30th, The New York Times published an article entitled, "Auto Dealerships Teeter as Big 3 Decline." I am interested, Mr. Chairman, in trying to understand how this bailout will help the small dealers. I yield back.

The CHAIRMAN. The gentleman from New York, Mr. King, is recognized for 2 minutes.

Mr. KING. Thank you, Mr. Chairman. I want to thank you and the ranking member for conducting this hearing. I want to thank the gentlemen for appearing today. And I associate myself very

much with the remarks of Mr. Castle. There is no doubt that this has a severe impact on the economy. The concern I have is not whether we should do something, but do we know what we are doing, do we know exactly what it is going to achieve? There is no doubt that with the \$700 billion, we thought we were doing one thing, and it ends up the Treasury Secretary is doing something else. And so my concern is, even though we are talking about taxpayers' dollars, if I thought that the money—if I was reasonably convinced that the money was going to work, then I would support it. And I am not saying I won't.

But really that is what I am looking for, is that we will have some reasonable expectation that whatever we do has a reasonable chance of working, because no one wants to lose 3 million jobs with the impact it would have throughout the economy. As the chairman pointed out, I believe it is another half a million this month are unemployed, and hundreds of thousands more over the course of the next year, if not more. So what I am going to be listening to carefully today is, what are the chances of this working, can we do it in the amount of time we have available? Mr. Kanjorski is right, we should do something transitional. But the fact is that the time for posturing is gone, the time for partisanship is gone. We have to address this very, very seriously. I think this hearing is a very sound step in that direction, and I yield back the balance of my time.

The CHAIRMAN. The gentleman from North Carolina is recognized for 1½ minutes.

Mr. WATT. Thank you, Mr. Chairman, and thank you for convening the hearing. I have been conducting my own market research for the last 2 weeks, actually, in dealerships, talking to people like Ernel Simpson and George Duran and Reggie Hubbard and Anthony Wilder, who are salespeople and owners of local dealerships. And there is a serious problem exemplified most prominently by Ernel's statement to me that he didn't sell a single car in October of this year. We know there is a crisis. People are not buying. And if people are not buying, there is not going to be any working capital or turnover of money.

I also went this morning and looked at the next generation of cars that are out in front of the Botanical Gardens. And I want to encourage my colleagues, if they have an opportunity today, to do that. All of them are in the development stage. But if these manufacturers go into bankruptcy, they will never get out of the development stage and into the implementation stage, which is what is necessary to maintain the manufacturing base here in the United States.

So this is important. I am trying to keep an open mind, learning as much as I can about the crisis and what we can reasonably do to bridge this gap. I think we need to do something, and I am hopeful that we will come up with a solution. I appreciate the witnesses being here, and I yield back the balance of my time.

The CHAIRMAN. The gentleman from Illinois, Mr. Manzullo, is recognized for 1½ minutes.

Mr. MANZULLO. Mr. Chairman, thank you for holding this hearing to give us an opportunity to discuss the restructuring plans. The main flaw I see in these plans is the assumption that the de-

mand for cars will naturally rise during tough economic times. If Congress just gives the Big 3 a bridge loan to pay their normal operating expenses but does nothing to increase the demand for the vehicles, we have not solved any of the long-term problems, and not helped the tens of thousands of people in my congressional district who are impacted by this crisis, including the great workers at the Chrysler plant in Belvedere, which makes the world's finest compact autos, the Caliber, Patriot, and Compass.

We need to encourage Americans to start buying cars again, and that is not in any of the plans. We should give Americans tax incentives, tax credits, to encourage them to buy cars. None of your plans has any statement, aside from one sentence on page 26 of GM's, about how we get sales moving again. On top of this, GM wants to become a commercial bank with the ability to handle consumer checking accounts and compete with local banks, credit unions, and local facilities of national banks that the Big 3 shovled out of the auto credit market years ago, and which, in fact, have plenty of money to lend to consumers who want to buy your cars, but which you say there is no money for American consumers to buy your automobiles.

I look forward to your testimony. I want to make sure that the people I represent are helped out. But the plans that you have given and the new plans are woefully insufficient because they do not address demand.

The CHAIRMAN. The gentleman from New York, Mr. Ackerman, is recognized for 2 minutes

Mr. ACKERMAN. We don't always have a second chance to make a first impression. Welcome back. The situation in which we all find ourselves, certainly with this economy, is not one of your making. But the condition of the auto industry is one of your making. We are faced with a reality that we have given away almost \$1 trillion in taxpayer money with what we thought was some strings attached to a bunch of financial industry people. You faced the fury around here with the American public of having really no accountability for any of that money. We are faced with dealing with that anger and that frustration, and you are the people who are in front of us right now.

We want to be sure that if we are going to lend you this money, that you are going to be able to do the right thing and be able to run your companies. It seems to me that the last time you were here, maybe you didn't get it. And I think that coming up with a plan I think maybe you now do, indicated by the fact that by the seat of your pants, you thought you needed \$25 billion, but when you really figured it out you need about \$34 billion. I don't want to send you home again because it is just going to get more expensive in another 2 weeks, I am sure.

So you arrive here with this problem in the midst of a perfect storm that occurred while the creek was already rising and caught you doing the same rain dance that you were always doing. And I think we seem to have gotten your attention last week. Your testimony is going to be very important to us because we are going to have to make an evaluation—

The CHAIRMAN. The gentleman's time has expired. The gentleman from Illinois is recognized for a 1½ minutes.

Mrs. BIGGERT. Thank you, Mr. Chairman. Like my colleagues here today, I am deeply concerned about the state of the U.S. economy. Rather than looking forward to a cheerful holiday season, most Americans are facing uncertainty about the economic times due to unemployment or losses in their savings and investments. Other Americans are cutting back because of fear about their future. They have a job and they have savings but they are worried about how bad the economy might get. They are not buying, they are holding back to see what happens. What we all want to know is this. Are the Big 3 auto companies not selling cars because Americans don't want their cars, they want better fuel efficiency from their cars, or they can't afford their cars.

Is it because they can't get financing to purchase a new car, believe that bankruptcy will make the warranties on their cars worthless, or think we in Congress will enact some legislation down the road that makes it more attractive to buy their cars? Perhaps most importantly, is it just plain fear of making any large purchase at a time of uncertainty in an economy like this? We don't know. We don't know whether granting your request today will mean you won't be back here in 2 or 3 or 4 months asking for more.

I think to start with, I would like the witnesses to address how they will help dealers move inventory and encourage American consumers to buy more American cars. Second, I would like to hear thoughts on how Federal approval of GMAC's holding company application, and Ford and Chrysler's ILC applications may help to facilitate auto financing. And third, I would like to hear how manufacturers plan to ensure that their operations will become self-sustainable in the long term and guarantee that taxpayers will not simply be asked to foot the bill. With those questions in mind, I look forward to hearing from today's witnesses. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman from California is recognized for 3 minutes.

Mr. SHERMAN. Thank you, Mr. Chairman. There are those who are concerned that this proposal is a departure from pristine capitalism. We don't live in a world of pristine capitalism. When we look at the heavy subsidies provided by Japan, Germany, Korea, France, and China to their auto industries, we realize how insane it would be for us to go forward without a U.S.-based auto industry. The worst type of job for America to lose is a manufacturing job, and the worst time to lose a job is right now. But when we craft the bill, we need to put tough standards in the bill for three reasons: First, it will maximize the likelihood that the bill will pass on the Floor; second, it will minimize the number of executives from other industries who drive their cars to Washington making that plea, well, if you did it for the banks and the auto companies, you need to do it for us; and finally, it is important that we put tough provisions in these bills, because a careful reading of the written pronouncements of the automobile companies indicates that they themselves are not going to adhere to the kind of tough conditions that the American people expect and that the auto industry needs.

At the last hearing, I asked a number of questions. For the record, I have gotten responses. My first was whether the compa-

nies would seek to keep open American plants and close down plants in other countries. They simply said, no, they could not provide that assurance. The bill needs to provide that you can't close a plant without the approval of the Administration, and hopefully they will use reasonable efforts to preserve American jobs. I asked whether there would be a warranty fund so that people buying cars today can be sure that their warranty will be serviced even if, God forbid, one of these companies goes bankrupt.

There is no assurance in the plans of that. If we want to protect consumers and to protect their warranty rights, we are going to have to put that in the bill. I asked about executive compensation and whether there would be a \$1 million, I didn't go for this \$1 a year thing gentlemen, just \$1 million a year limit on the salary, bonuses, stock options, and pension plan contributions, the whole executive compensation plan for any executive. The response was that, no, that assurance could not be given. If we want that limit to apply to the automobile industry, we are going to have to put it in the bill.

Finally, and I know it has become symbolic and it can be regarded as a red herring, but I do think it is something the American people are now insisting on, and that is the use of private planes. I know that the executives drove here today, and that creates this image to the American people that the days of private luxury aircraft are over. Yet, I am told by the companies that is misreading the symbol, and so if we want the limit we have to put it in the bill.

The CHAIRMAN. The gentleman from Texas, I believe, is next for 1½ minutes.

Mr. HENSARLING. Thank you, Mr. Chairman. We were last here a couple of weeks ago. What has changed is clearly some of the panelists found an alternative means of transportation to the Nation's Capitol. The request has gone from \$25 billion to \$34 billion, so I will be interested to figure out what has changed there. Here is what hasn't changed. Nobody in this room wants to see the Big 3 fail. Now, it is a catastrophic consequence for our Nation. But what hasn't changed also is that every industry, every industry in America is hurting today. Show me one that isn't. Show me one that couldn't be assisted and made more viable and more profitable with an additional \$34 billion.

So why the folks before us and not other folks back home. Something else that hasn't changed is that this year, over half a million small businesses, the job engine of America, half a million small businesses will go under, a number of them in my district, the Fifth District of Texas. They could be saved by \$34 billion. New small businesses could be launched with \$34 billion. Here is something else that hasn't changed. Unless consumers demand more of these vehicles, and unless the labor cost of the Big 3 become more competitive, \$34 billion, \$44 billion, \$54 billion, name your number, will not solve the problem. There is a concept of throwing good money after bad. I am anxious to hear about the plans.

Last but not least, what hasn't changed is the taxpayer is already \$25 billion light on sending money to the Big 3. Now, you gentlemen haven't received it because it is tied to fuel efficiency metrics. But there is bipartisan legislation that I would be happy

to support to release those funds to you now, but seemingly the Speaker of the House doesn't want to move in that direction for fear of a political battle between the UAW and the environmental movement. But if it is truly an emergency, that money should be reprogrammed. I yield back.

The CHAIRMAN. The gentleman from Georgia is recognized for 2 minutes.

Mr. SCOTT. Thank you very much, Mr. Chairman. Welcome back, gentleman. When you were last here, we talked specifically about helping the small businesses, the small auto dealers. In my district in Metro Atlanta, I represent about 31 towns and cities, and dealers are an integral part of that economy. And I asked each of you, and each of you agreed, that we would have this end, this plan. One, that we would make direct capital accessible for these dealers through the Treasury Department. That we would also have what we call disaster emergency loans that are right there available in SBA. Nothing off of your plate. All it would have to be would be the President or SBA Director be able to target these. This would help African-American dealers whom I represent quite a bit in the Metropolitan Atlanta area. And secondly, to set that \$1 billion aside to be able to give low-interest loans. The problem with the dealers is they can't get access to capital. And I think a major part of this would be for you to make sure that is in there. You agreed to do it at the last meeting. We want to make sure that is in there if this moves forward. The other part is the energy efficiency of automobiles. That is why the public is not buying the automobiles. They are not going to buy these gas guzzler SUVs. They want smaller cars, energy efficient cars. A part of the plan should be to make sure you got a marketing program in there to market these products over the next 90 days, to hurry up and then appeal to the patriotism of America.

America will rise to that and buy American cars if they are fuel efficient. The other thing I think we really carefully need to take a look at, and I talk to you Mr. Wagoner, and you Mr. Nardelli, about this, to really look at merging your two operations.

The CHAIRMAN. The gentleman's time has expired. The gentleman from New Jersey is recognized for 1½ minutes.

Mr. GARRETT. Thank you. Mr. Chairman, obviously the panel sitting before you has a lot of experts on how to run an auto industry. I thank the chairman for holding this hearing. I understand also why the panel came before us several weeks ago asking for in essence a blank check with no strings attached. I think that was because Congress just previous to that gave away \$700 billion to the banks likewise with no strings attached or no direction to the banks on operation or detailed information on how the banks will actually use the money. So I think that explains why you came before. I am pleased that the three companies have now submitted a more detailed proposal. I do still have some concerns how these new plans will be the saving grace for our domestic auto manufacturers.

The purpose of the plans is to provide what is called a bridge loan to the Big 3 domestic auto manufacturers. My concern quite candidly is to make sure that this is not a bridge to nowhere. As I understand it, GM is essentially out of time right now. So the

question is, as we close dealerships in 2012, or restructure the union obligations in 2011, none of that is going to help us right now. Things have to be done sooner. I do have concerns with regard to the preemption of States' rights and how that impacts upon the dealerships, and I would like to hear some information on that with regard to what their actual cost savings are in there and how the implications of implicating the States' rights issues will play out. I also have concerns that the actual future sales numbers will be considerably lower than the projected ones in these reports.

So in conclusion, if the Federal Government provides these temporary loans without the proper restructuring, I think all we are really doing is kicking the can down the road and delaying the day of reckoning at the expense of the taxpayer. And so for the reasons I said before, in addition to the ones on the demand side that have been considered by several others, I look forward to your testimony.

The CHAIRMAN. The gentlewoman from Florida for 1½ minutes.

Ms. BROWN-WAITE. Thank you, Mr. Chairman. Several weeks ago when you were here, we were thinking of Christmas and the three wise men. Your method of transportation proved that you were the three wise guys. I am glad to see that you have turned into the three wise men in choosing your own products as a method of transportation here. You are here to tell us that after a decade of declining sales volume, if it weren't for the financial crisis, consumers would be buying the cars from Detroit over the competition. However, the current crisis facing Detroit is not one created from short-term problems beyond your control, rather the crisis facing you all comes from long-term problems of overcapacity, poor corporate governance, and a lack of foresight.

To be fair, Ford did have the foresight to make preparations for the future. General Motors and Chrysler, though, ignored their liquidity problems, probably planning to come to Congress rather than taking an objective look at reality. You all continue to act with negligent disregard toward your duty to plan for future emergencies. As a result, today we have over 3 million jobs at risk. Fortunately, the \$34 billion that you are asking for today is obviously more than what you asked for the last time and probably less than what everyone feels you will be coming back for within a reasonable period of time. That is pretty sad.

As we learned with AIG, these situations can spiral out of control, and despite the recent lessons, some of my colleagues want to do for Detroit what already has been done for AIG. Mr. Chairman, thank you for holding this hearing. I look forward to hearing from the witnesses.

The CHAIRMAN. You are welcome. The gentleman from Texas for 1 minute.

Mr. GREEN. Thank you, Mr. Chairman. Mr. Chairman, thank you for not only convening the meeting, but also for your leadership. It has been dynamic. Mr. Chairman, this is about the Big 3, but it is also more importantly about the American economy. At a time when jobs are being lost at an unusual rate, 533,000 recently, unemployment is just up to 6.7 percent, at a time when we have a shrinking job market, can we afford to put more than 2 million people out of work? What will happen to them if this crisis continues to exacerbate to the extent that we lose the Big 3? They will have

to have some sort of unemployment compensation, they will have to have some sort of medical benefits, they will have to have some sort of pension program that is already in place to be cultivated and to be continued. This is about the American economy. If we don't focus on the American economy, we will lose our way. Thank you, Mr. Chairman.

The CHAIRMAN. We have three more statements. Let me just explain. We do this by time. On the Democratic side, we tend to use more time, and on the Republican side, less time and more Members. I do want to address, apparently some of my Democratic colleagues thought I had been discriminating against them in favor of the Republicans. I will remind people that when we had our last hearing, it unfortunately coincided unavoidably with a Republican conference, so some of the Republican members who were entitled to make opening statements were at the conference. When they returned, we combined the opening statement time that they were entitled to with their 5-minute question time. That is why some of them were given 7 minutes.

Mr. BACHUS. Mr. Chairman.

The CHAIRMAN. The gentleman from Alabama.

Mr. BACHUS. We were told that if we came here on a horse or in a battery-operated car, we could get an extra minute.

The CHAIRMAN. Well, I would say anybody who is here on a whole horse would get some consideration, but I am not sure everybody qualifies. The gentleman from South Carolina for 1½ minutes.

Mr. BARRETT. Thank you, Mr. Chairman. Gentlemen, I am a little unclear what we are doing here today trying to evaluate the competitiveness of business plans and determine whether taxpayer money should be used to save your business. And I don't mean any disrespect, but 2 weeks ago you came here on private jets telling us how your businesses were failing and asking American taxpayers to bail you out. I understand your situation. I appreciate it and am concerned about the jobs that would be lost as a result of you closing your doors. None of us here want to see that happen. But as we sit here, thousands of people across this country who are watching this hearing are losing their jobs. I know these are tough times, but the discussions we are having here doesn't make sense to me.

We are sitting here trying to evaluate the business plans of corporations. But trust me, Congress has no authority to tell people how to spend money efficiently and effectively, and we certainly can't prevent the direction of the marketplace. I am concerned that businesses are rightly going to start thinking they can just come to Uncle Sam and we will bail them out. And we are broke, flat broke. The Federal Government should be creating an environment where all businesses can succeed, not micromanaging the affairs of private businesses and industries and determining which businesses can fail and which can succeed. I would ask for my whole statement to be submitted for the record, Mr. Chairman.

The CHAIRMAN. The gentleman from Georgia is recognized for 1½ minutes.

Mr. PRICE. Thank you, Mr. Chairman. Over the past year, we have seen an unprecedented level of government intervention into

the market, and there seems to have been enough time and enough pain to pose this question, how is it working? One does not have to be an expert to judge the efficacy of recent government bailouts. Congress is appropriately in the position of asking some very difficult questions. One that must be addressed is whether or not the congressionally-backed taxpayer safety net that has been cast far and wide has only served to prolong and deepen our current financial downturn while at the same time burdening an unconceivable and enormous debt on our children, our grandchildren, and now, yes, even our great grandchildren.

We are in real danger of politicizing our entire economy. And there is historic risk in that, for it has always been the absence of politics in the greater economy that has allowed more success for more people than any nation in the history of mankind. In a political economy, Washington is the judge. Washington picks the winners and losers. Washington decides what products and services we need. We all want the American auto industry to survive and to thrive. My sense is that the concessions necessary by all of the involved stakeholders to ensure a robust American automobile industry will require a legally expedited restructuring process. And I would ask our guests what is it specifically that prevents you from supporting this more tried and true, and dare I say American solution?

The CHAIRMAN. The final statement, the gentleman from Michigan, Mr. McCotter.

Mr. MCCOTTER. Thank you, Mr. Chairman. A preliminary point, I am not going to inquire about your travel arrangements because I am a Congressman, not a Conde Nast travel agent. And right now, it is a very anxious holiday for working families in Michigan in our entire American manufacturing sector. For that reason, later today, I will be putting out what I hope will be four points for a principled bridge loan that can be approved by this Congress, the most salient of which for the current proceedings is that half of the bridge loan come from the TARP funds for the prevention of foreclosures and that half of the funds come from the Department of Energy loans for the preservation of the research and development of green technologies in which the auto industry already engages. And of course, the ultimate maximum taxpayer protections, the best protection of which is a viable restructuring plan, which I believe you have put forward. As to why this is necessary economically, we have heard much about a ripple effect, how one manufacturing job's loss can cause the loss of 7 to 10 more jobs.

My friends, that is not a ripple effect, that is a tsunami effect, especially in these critical times. And as we debate this issue, let us look past the people in the room at the people who are employed in the manufacturing industry and remember the human cost of the decision that we will render. In the final analysis, I believe, I agree in some part with what the President said on this issue, "No matter how important the autos are to our economy, we don't want to put good money after bad." Yes, I recognize the rich irony in that Administration's statement. But what I also recognize as we debate this issue is a simple proposition.

In America, the only thing too important to fail is a working family. And as we address the bridge loan for the auto industry let us

not fail these working families who have entrusted us with these positions in Congress. Thank you.

The CHAIRMAN. We will now begin the statements. I, at this point, would ask unanimous consent to enter into the record submissions from General Motors and Ford on the extent to which failures on their part would have reverberation throughout the economy. The Ford statement is headed Systemic Risk, the General Motors statement is headed Collateral Damage. And there are other Members who are submitting things for the record; we will get unanimous consent to do so. I also ask unanimous consent that colleagues who are not on the committee be allowed to join us on the dais.

I see the gentleman from Ohio who has a long interest in this. And any other Members, particularly from those States obviously where there is a significant manufacturing presence, if there is no objection, will be invited to join us on the dais, but not of course be able to ask questions because of the time constraints. Is there any objection? I hear no objection, so that request is granted. And

We will now start with our statements. I am going to begin with the head of the United Auto Workers, Mr. Gettelfinger, because at least for many of us in this committee, the Union is not an afterthought. Mr. Gettelfinger.

**STATEMENT OF RON GETTELFINGER, PRESIDENT, UNITED
AUTO WORKERS (UAW)**

Mr. GETTELFINGER. Mr. Chairman, distinguished members of the committee, good morning. And thank you, Mr. Chairman, for giving the women and men of UAW a voice in this hearing. The UAW believes it is imperative that the Federal Government act this month to provide an emergency bridge loan to General Motors, Ford, and Chrysler. Without such assistance, General Motors and Chrysler could run out of funds in the near future and be forced to liquidate. The collapse of these companies would inevitably drag down numerous auto part suppliers which in turn could lead to a collapse of Ford. The UAW supports conditioning any emergency bridge loan funds both on strict accountability measures and on the companies pursuing restructuring plans that will ensure the viability of their operations in the coming years.

For such restructuring plans to succeed, we recognize that all stakeholders, equity and bond holders, suppliers, dealers, workers, and management must come to the table and share in the sacrifices that will be needed. The UAW and the workers we represent are prepared to do our part. We are continuing to negotiate over ways to make the operations of General Motors, Ford, and Chrysler more efficient and competitive. Workers and retirees have already stepped forward and made enormous sacrifices. Thanks to the changes in the 2005 and the 2007 contracts, the labor gap with the foreign transplant operations will be largely or completely eliminated.

The UAW recognizes that the current crisis may require workers to make further sacrifices. For example, we recognize that the contributions owed by the companies to the retirees health care VEBA fund may need to be spread out, and that there may need to be adjustments in other areas of the contract. But the UAW opposes any

attempt to make workers and retirees the scapegoats and to make them shoulder the entire burden of any restructuring. Wages and benefits only make up 10 percent of the cost of the domestic auto companies. The UAW also submits that it is not feasible for Congress to hammer out the details of a complete restructuring plan during the coming weeks. There is simply not enough time to work through the many difficult and complex issues associated with all of the key stakeholders, as well as changes in the business operations of the companies. What Congress can and should do is put in place a process that will require all of the stakeholders to participate in a restructuring of the companies outside of bankruptcy.

This process should ensure that there is fairness in the sacrifices and that the companies will be able to continue as viable business operations. This process can begin immediately under the supervision of the next Administration. By doing this, Congress can make sure that the emergency assistance is indeed a bridge to a brighter future. Contrary to the assertions by some commentators, in the present environment, a so-called prepackaged Chapter 11 bankruptcy is simply not a viable option for restructuring the Detroit based auto companies. Research has indicated that the public will not buy vehicles from a company in bankruptcy.

In addition, attached to my testimony is a detailed analysis prepared with the assistance of experienced bankruptcy practitioners. The analysis explains that a prepackaged bankruptcy is not a feasible option for the domestic auto companies because of the size and complexity of the issues that would necessarily be involved in any restructuring, including relationships with thousands of dealers and suppliers and major changes in business operations. The UAW believes that the recent actions by the Federal Government to provide an enormous bailout to Citigroup reinforces the case for providing an emergency bridge loan to the Detroit-based auto companies.

If the Federal Government can provide this type of blank check to Wall Street, it should also be able to provide an emergency bridge loan to General Motors, Ford, and Chrysler, especially since these companies would be subject to strict accountability and viability requirements.

In conclusion, the UAW believes it is imperative that the Federal Government act this month to approve an emergency bridge loan to GM, Ford, and Chrysler to enable them to continue operations and to avoid the disastrous consequences that their liquidation would involve for millions of workers, retirees, and families across our entire Nation. Thank you, Mr. Chairman.

[The prepared statement of Mr. Gettelfinger can be found on page 154 of the appendix.]

The CHAIRMAN. Thank you, Mr. Gettelfinger.
Mr. Mulally.

**STATEMENT OF ALAN R. MULALLY, PRESIDENT AND CHIEF
EXECUTIVE OFFICER, FORD MOTOR COMPANY**

Mr. MULALLY. Good morning, Chairman Frank, Congressman Bachus, and members of the committee. Since the last hearing, I have thought a great deal about the concerns that you have expressed. I want you to know I heard your message loud and clear.

On Tuesday, you received Ford's detailed and comprehensive business plan, and I appreciate the opportunity to return here today and share Ford's vision and progress in becoming a profitable growing company. You were clear that our business model needs to change. I absolutely agree. That is why I came to Ford 2 years ago to join Bill Ford in implementing his vision to transform our company and build a greener future using advanced technology. Let me share with you what we have done to change from how we used to do business to how we do business now.

It used to be that we had too many brands. Now, we have a laser focus on our most important brand, the Ford Blue Oval. In the last 2 years, we sold Aston Martin, we sold Jaguar, and we have sold Land Rover, and reduced our investment in Mazda. And this week, we announced we are considering the sale of Volvo.

It used to be that our approach to the customers was, "If you build it, they will come." We produced more vehicles than our customers wanted, and then slashed prices, hurting the residual values of those vehicles and hurting our customers. Now, we are aggressively matching production to meet the true customer demand.

It used to be that we focused heavily on trucks and SUVs. Now we are shifting to a balanced product portfolio, with even more focus on small cars and the advanced technologies that will drive higher fuel economy in all of our vehicles, no matter what their size.

It used to be that our labor costs made us uncompetitive. Now we have a ground-breaking agreement with the UAW to reduce labor costs, and we appreciate the UAW's continued willingness to help close the competitive gap. It used to be that we had too many suppliers and dealers. Now we are putting in place the right structure to maximize the efficiency and the profitability for all of our partners. It used to be that we operated regionally, European cars for Europe, Asian cars for Asia, and American cars for the United States. Now, we are leveraging our global assets—innovation, technology, and our scale—to deliver world-class products to every market.

It used to be that our goal was simply to compete. Now we are absolutely committed to exceeding our customers' expectations for quality, fuel efficiency, safety, and affordability. This is the Ford story. We are more balanced; we are more efficient; we are more global; and we are more focused. In short, we are on the right path to becoming a profitable growing company for all of us.

We have moved our business model in a completely new direction, in line with the most successful companies and competitors around the world. And as a result of our progress, we made a profit in the first quarter of this year, 2008. Unfortunately, we all are facing a severe economic downturn that has slowed our momentum. Despite this downturn, Ford does not anticipate a near-term liquidity crisis. In fact, we expect our automobile business to be profitable in 2011. But we do support a government bridge loan because it is critically important for the United States auto industry.

Specifically, Ford requests access to \$9 billion in bridge financing, something we hope we will not need to use. Instead, as we continue to drive change in our company, this line of credit will serve as a critical safeguard if events require it. And if we did need ac-

cess to this loan, we would use the money to continue our aggressive transformation and restructuring.

Ford is an American company, and it is an American icon. We are woven into the fabric of every community that relies on our cars and trucks and the jobs our company supports. The entire Ford team, from employees to shareholders, suppliers to dealers, is absolutely committed to implementing our new business model and becoming a lean, profitable company that builds the best cars and trucks on the road for our customers.

There is a lot more work to do, but we are passionate about the future of Ford. In fact, we invite you to visit us in Dearborn to kick the tires, look under the hood, and talk to our employees. We hope you will join us and see for yourself the progress we are making to develop the vehicles of the future.

[The prepared statement of Mr. Mulally can be found on page 169 of the appendix.]

Ms. WATERS. [presiding] Thank you very much.

Mr. Nardelli.

**STATEMENT OF ROBERT NARDELLI, CHAIRMAN AND CHIEF
EXECUTIVE OFFICER, CHRYSLER LLC**

Mr. NARDELLI. Thank you, Madam Chairwoman.

I appreciate the opportunity to represent the one million people who depend upon Chrysler for their livelihood. Before I answer your questions regarding our loan request, let me state clearly why we are here.

Chrysler requests a \$7 billion loan to bridge the current financial crisis. And in exchange, Chrysler is committed to continue our restructuring, including negotiations and cost-savings concessions from all constituents, invest in fuel-efficient cars and trucks that people want to buy, and begin repayment of our government loan in 2012. I also want to reinforce the need for Chrysler Financial to receive immediate assistance from TARP, as their continued vitality is as critical an assumption as our request.

Chrysler requires this loan to get back on the transformation that began 1 year ago. As a newly independent company in 2007, Chrysler was on track for financial profitability. We eliminated more than 1.2 million units, or 30 percent of our capacity. We reduced our fixed cost, \$2.4 billion, and separated more than 32,000 workers, including 5,000 on the Wednesday before Thanksgiving, or 25 percent of our salaried workforce. And at the same time, we have invested more than a half a billion dollars in product improvement in our first 60 days of independence. We improved our J.D. Power quality scores and reduced our warranty claims by 29 percent and, as a result, through the first half of 2008, Chrysler met or exceeded its operating plan and ended the first half of the year with \$9.4 billion in unrestricted cash.

We are here because of the financial crisis that started in 2007 and accelerated at the end of the quarter of 2008. As consumer confidence fell and the credit markets remain frozen, the lowest U.S. auto sales in more than 20 years put tremendous pressure on our cash position. U.S. industry sales fell from \$17 million in a year, in 2007, to a monthly annualized rate of \$10.5 million just last month, a 6.5 million unit decline.

So what does that mean for Chrysler? It is a 10 percent market share. It translates to the loss of 650,000 vehicles, or roughly \$16 million in lost revenue opportunity this year alone. With such a huge hit to our sales and revenue, Chrysler requires the loan to continue the restructuring and fund our product renaissance.

Chrysler has a sound plan for financial viability that includes seeking shared sacrifice from all constituents. We have identified approximately \$4 billion of potential cost savings in improvements that have been included in our viability plan that we have submitted. We are committed to negotiate with all constituents to achieve our targeted savings.

Our plan also includes producing high-quality, fuel-efficient cars and trucks that people want to buy, while supporting our country's energy security and environmental sustainability goals.

For the 2009 model year, 73 percent of our products will offer improved fuel economy compared with 2008. ENVI is our breakthrough family of all-electric and our range-extended electric vehicles, similar to the one that we have parked outside.

Chrysler's long-range product plan is robust, realistic, and it is green. The plan features 24 major launches from 2009 to 2012. It includes a hybrid Ram truck, our first electric-drive vehicle will be out in 2010, with three additional models by 2013.

A key feature of Chrysler's future is our capability as an electric vehicle company. Through our GEM or neighborhood electric vehicle division, Chrysler is the largest producer of electric-driven vehicles in the United States. Combined with new products from our ENVI group, we expect to have 500,000 Chrysler electric-drive vehicles on the road by 2013.

Chrysler will continue to aggressively pursue new business models that do include alliances, partnerships, and consolidation. This model is currently successful in helping Chrysler increase effective utilization of our manufacturing capacity. For example, in North America, Chrysler manufactures all Volkswagen minivans and, beginning in 2012, will produce all of Nissan full-size trucks.

So let me say in conclusion that I recognize that this is a significant amount of public money. However, we believe this is the least costly alternative, considering the depth of the economic crisis and the options we face.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Nardelli can be found on page 210 of the appendix.]

The CHAIRMAN. Before I get to Mr. Wagoner, I want to make an announcement for us. Managing this fairly is not always easy, but many of the Members got to ask questions of the auto industry and the Union last time, and then others asked of the second panel. I am going to reverse that. I am going to begin by recognizing any Member on the Democratic side who did not get to ask questions of this panel. We will then go to others.

So I just tell you that in advance so you have a chance to formulate your questions. We will then pick up the regular rotation.

Mr. Wagoner, please go ahead.

**STATEMENT OF G. RICHARD WAGONER, JR., CHAIRMAN AND
CHIEF EXECUTIVE OFFICER, GENERAL MOTORS CORPORATION**

Mr. WAGONER. Thank you very much, Mr. Chairman, and committee members.

Let me start out by expressing our sincere appreciation for the chance to come back to talk to you again. We know this is a time when you normally are with your constituents.

I also wanted to thank the Speaker and the Senate Majority Leader for the very clear direction which they have provided as to the expectations as to what should be included in the plan.

General Motors this year is celebrating its 100th anniversary as a company. As we begin the preparation and finalization of this plan, we thought back over those 100 years and the many successes of the company, but we also thought about the mistakes that the company had made and how we have learned from those mistakes. We applied all of that knowledge, both our successes and our mistakes, as we put together the comprehensive plan which we have submitted to you.

We thought about things we do best, such as when we are pursuing technological excellence in leadership. We thought about the fact that we always have to pay attention to make sure we are cost competitive, and that we do best when we have close alignment between our company's goals and the goals of the country.

The plan that we have submitted is one that I and the whole General Motors team believes in and believes we can accomplish. The plan shows why GM needs temporary government funding, how that funding will be used, how we intend to repay taxpayers, and why funding is beneficial to the U.S. economy as well.

In some ways, the plan accelerates and expands restructuring that we have been undertaking for the last several years. But in many ways, in fact, the plan is a blueprint for a new General Motors for our second century. The key elements of the plan are based on much more conservative, realistic industry volumes than we have historically had, and also it is comprehensive in that it addresses both operating competitiveness and balance sheet restructuring. The key elements of the plan are a commitment to new technology, particularly in the advanced propulsion area and the creation of green jobs, an increased production of fuel-efficient vehicles, a reduction in focus in a number of our brands, models and retail outlets, further manufacturing and structural cost reductions, full labor cost competitiveness with foreign manufacturers in the United States, a significant restructuring of our balance sheet, and continued suspension of common stock dividends, as well as changes to executive and board compensation and closure of our corporate aircraft operations.

These and other tough, but necessary actions will position the company for medium and long-term success. This success is achievable if we can weather the global financial crisis and lowest level of U.S. industry sales in the last 50 years on a per capita basis. To that end, our plan requests, respectfully, \$12 billion in short-term loans and a \$6 billion line of credit to cover the downside scenarios. We are seeking an immediate loan of \$4 billion and a second draw of up to \$4 billion in January. Our intent is to begin re-

payment as soon as 2011, and full repayment by 2012 under the baseline industry forecast in our report, and warrants would allow taxpayers to benefit if GM share prices increase.

We also propose as part of our plan the creation of a Federal oversight board which would facilitate the restructuring negotiations, review the plans on a regular basis, and act to protect taxpayers.

GM has been an important part of American culture for 100 years, most as the world's leading automaker. We are here today because we have made mistakes that we have learned from, because forces beyond our control in the credit markets have pushed us to the brink and, most importantly, because saving General Motors and all the company represents is a job worth doing.

Thank you very much. I look forward to your questions.

[The prepared statement of Mr. Wagoner can be found on page 225 of the appendix.]

The CHAIRMAN. Let me have on the Democratic side the first Member in seniority who did not ask last time, the gentlewoman from New York. Remember, 5 minutes.

Mrs. MCCARTHY OF NEW YORK. Thank you, Mr. Chairman. I appreciate the testimony that we have heard.

Last night, I had the opportunity to look at your business plan models, but I think we still have the problem of the American people trying to understand why we need to help all of you. Many of us understand, we are going around it in many different ways. I certainly have heard from all my dealerships in my district.

But the final economy, the final economy and how is it going to affect this whole country if we allow one or all of you to fail. And what about the dealerships and the reconstruction of what you are planning on doing? If you go into bankruptcy versus if you have a bridge loan, how is that going to help those dealerships across the country to try to keep their businesses open?

Mr. WAGONER. As we have discussed somewhat in our report, the analysis that we have seen suggested if an auto manufacturer goes into bankruptcy, that company will lose a significant amount of its sales. Under that scenario, it would obviously have a huge ramification for those that sell our products, our dealers, so we would expect to see similar dire consequences.

Mrs. MCCARTHY OF NEW YORK. What I am trying to get at, and we had this, unfortunately, with Mr. Paulson when he was trying to explain why we needed to do the bailout going back, the American people don't understand the words you are using. Put it down to dollars and cents on basically what it is going to cost this economy if we let you go, and what is the domino effect going to be across the whole country.

Mr. NARDELLI. From a Chrysler perspective, I just want to reinforce a couple of comments I made in my opening comments of the importance of our financial support, our financing companies. They are inseparably linked. As of Saturday, Chrysler had over 240 dealers that have gone bankrupt because the finance company has not gotten any funds from TARP to be able to improve the liquidity to the consumer or to our dealer with relative to capacity. We have another 250 dealers that are on credit hold. That represents about 63,000 units on an annualized basis that are gone from our busi-

ness plan. Of our 3,300 dealers, there are about 140,000 employees that they currently have on their payroll. These are men and women that stretch across this entire country, metro, urban, you name it. So this would be a tremendous impact if Chrysler went down just on the dealer network alone, plus there are 30 million Chrysler owners in the market today whose car value would depreciate significantly on future trade-in, and they would not be able to get parts and service to maintain them. I know there have been several questions raised about the dealers. These are the men and women, these are the entrepreneurs, these are the small businesses that we have to keep alive.

Mrs. MCCARTHY OF NEW YORK. I guess what I am trying to get is a dollars and cents; that is what the American people understand. And we went through this again with Secretary Paulson. I can go home and talk to my constituents and tell them what it is in dollars and cents and why we have to do what we have to do. It is a shame that none of you can come up—and I think, going through some of the paperwork, you actually had a dollar and cents on what it is going to cost this economy.

All right. If the U.S. financial system, Detroit Three plus suppliers, create a \$1.1 trillion gross exposure to the U.S. financial system, and at least a \$650 billion net exposure, those are the dollars and cents that the American people understand when we are trying to say, if we give you this bridge loan, how much is it actually going to save the economy across this whole country? That is the point I am trying to get across. You have to learn how to speak to the American people when you are in testimony in front of this.

We understand what you are trying to do. The American people have to understand what we are trying to do to help them because this is a political situation here.

Mr. WAGONER. Can I just comment that you are correct, the data of that is the impact on the financial system of our financial obligations. And I think obviously you can add to that multiples as far as the impact on the real economy, the loss of jobs, the closure of dealerships, the impact on the supply base. So that number would be a huge increment on the number that you cited.

Mr. NARDELLI. Just on the three of us up here, the financial institutions would be exposed over \$300 billion alone in what they have in financing to the three manufacturers here at the table.

Mrs. MCCARTHY OF NEW YORK. Thank you.

The CHAIRMAN. The gentleman from Delaware.

Mr. CASTLE. Thank you, Mr. Chairman.

Mr. Gettelfinger, I would just like to thank you. We often fought the Union and what they have done in this circumstance, and maybe there is some proper attribution there, but I think you have made some hard decisions, and you show willingness to do more and we appreciate that. My questions are not for you, but I did want to make that statement.

I do want to ask the other gentlemen about something I mentioned in my opening statement, and that is the other aspects of the whole automobile business. As I look at the numbers of the Center for Automotive Research saying that some 3 million people can lose their jobs, I think about 240,000 directly relate to you, but a lot relate to the other aspects of the business, and the most im-

mediate ones are our suppliers, parts and whatever it may be, and also the auto dealers. And my question is, should we be considering doing anything for them? Should they be at this table, or is it your judgment that if we are to restore you to profitability, if we have more Americans buying American cars, that would suffice in terms of continuing what they are doing? I point out that some 80 percent of these suppliers have overlaps, that is, they deal with more than one of you, which means if any one of them fails because you fail, it could affect everybody else. So there is a tremendous amount of economic involvement and engagement as far as that is concerned. It is fine that you come here and say what you need. I have read your plans and I understand those needs are there. And we clearly, I think, want to do something if we can work out what it is exactly we are going to do. But are we missing a step in terms of not helping any of them directly with respect to all of this? Or, as I said, just restoring you to profitability would resolve that problem? If you could give brief answers to that.

Mr. WAGONER. Yesterday, at the hearing in the Senate, we had a supplier, the president of Johnson Controls, speaking, and he spoke I think eloquently in support of our proposals and made the observation that it is critical, first and foremost, that the OEMs survive and prosper. That is the key for the suppliers' success. But we certainly have been dealing with a record number of supplier restructuring over the last 5 years. It has affected us all significantly. So our specific plans cover the needs of General Motors, but I do think it is fair, your comment about that some of the supply base remains at risk. The best thing I think we can do is grow automotive demand, as you stated, and have us continue to produce cars and trucks. But some of them continue to be in very tight circumstances as well, as you indicate.

Mr. NARDELLI. The short answer for Chrysler is I have talked with our National Dealer Council and I have talked with our National Supplier Council, and we have gotten tremendous support that the best thing that could be done is to have a strong OE to be able to provide the continuity of new products and have the confidence from the consumer standpoint that we are viable, and therefore result in solid sales.

Mr. MULALLY. I would just add the economy and credit.

Mr. CASTLE. Okay. Just on another subject, very quickly. If this does not work, I mean, we have seen your plans and we have heard your testimony here today in terms of what your needs are, and Ford having a little bit of a delayed need or whatever it may be. But if this does not work, have you thought about what the next steps would be? I don't know how long "work" means, but maybe within 6 months to 18 months, or whatever, your sales are not what you would have anticipated, you have consumed the money that we have loaned you to, and then you are in a circumstance where you come back here and ask for more money, and you are asking in some cases for sage money as it is, or do you consider bankruptcy at that point? Can the large banks at that point come through with loans? I am sure you have explored it with your lenders previously, consolidation, issues such as that. I didn't sense that in your written statements or in your oral testimony here today. But my concern is, what if this doesn't work? What might

be the steps at that point? It is still very important that we try to salvage the American automobile business if we can.

Mr. WAGONER. Congressman, I thought the instructions that we had for the submissions of the report were very helpful in that they specifically asked us to cover a downside scenario as to U.S. industry volumes. And so we asked our people to look at what they thought would be an extreme extended downturn. We used industry volumes, which in the last 2 months have been very difficult, and took that level of industry for all of 2009 and then grew it only very gradually, recovering to 12.8 million units by 2012. If you have 4 years in a row running from 10.5 to 12.8 million units, this is the kind of automotive performance we haven't seen for decades in the United States, frankly. And under that scenario, we believe that we can rely on the 12-plus \$6 billion credit line and actually begin to pay some of the money back in 2010.

The CHAIRMAN. Thank you. The next Democrat who did not get to question this panel, Mr. Wilson.

Let me say that we did not keep the list, but we will check afterwards, so—

Mr. WILSON. I knew you would. Thank you, Mr. Chairman.

In Ohio, we appreciate well the interlocking relationship between the Big Three and certainly your suppliers. Do I understand you that the failure of one of the Big Three or one of the major suppliers could bring the auto industry down altogether?

Mr. Wagoner?

Mr. WAGONER. Yes, that is our view.

Mr. WILSON. Is there securitization for the suppliers, then, tied in with what is going on with the bridge loans that are being discussed for the Big Three?

Mr. WAGONER. The specific requests that we have for GM relate to GM's funding only. We are working closely with our suppliers. And as Mr. Nardelli said, the strong message we get from our supplier council on a regular basis is that what we can do most to help them is to ensure the viability of GM and continue to work closely with them. And I think you know, but when an individual supplier has a specific circumstance of tight liquidity, or whatever, we regularly work with them on a one-on-one basis to do our best to help them get through tough times, but we don't have a specific pot of funds here to support broadly the supply base.

Mr. WILSON. I am just wondering, if I can, Mr. Chairman, if that should be part of the language. Because if we get the Big Three propped up, and we hope they will be and will be successful, we also need to be concerned about the major suppliers.

Thank you.

Mr. WAGONER. That could be helpful.

The CHAIRMAN. The gentleman from New York, Mr. King.

Mr. KING. Thank you, Mr. Chairman.

Again, I want to thank the witnesses for their testimony.

And as I stated in my opening statement, the concern I have is that, if we do provide the loans, the bridge loans, that we don't know exactly how much is really needed. For instance, last week it was \$25 billion, now it is \$34 billion. There was testimony yesterday that over \$100 billion could be what is actually required.

And to follow up on what Mr. Castle said, I am looking for some reasonable assurances that as we go forward, this will work.

Now, Mr. Gettelfinger is here today, and I am not trying to pinpoint the UAW at all. But in the testimony, Mr. Nardelli, for instance, you spoke of continuing to negotiate cost savings. Now, that is in the future. If the money is given, for instance, what assurances do we have that those negotiations will continue between the UAW—and I know there are others besides UAW as far as the parties that have to be negotiated with—what assurances do we have that once the money is there, the negotiations will continue, and we won't be back here 6 or 8 months from now saying, we got the money up front, and therefore we sort of put this on hold, sort of the way the American people were doing with gas prices, when they were \$4 a gallon, \$4.50 a gallon, they were in a panic. Now that it is back under \$2, and they are forgetting the potential crisis, I am wondering, can we be assured that you will not forget how important and how vital this crisis is and that the temporary money you get will not put off those negotiations?

Mr. Gettelfinger?

Mr. GETTELFINGER. Thank you very much for the question. I would like to first of all say that, compare this to a ballpark right now. In 2005 we went on first base, 2007 we went on second base. Just recently, this week, we are on third base. Other participants have not even entered the ballpark yet. We are prepared, as I have stated in my testimony, to go back to the bargaining table. In fact, we took action this week, but we think everybody should be at that bargaining table. We think the board of directors, we think the management, suppliers, dealers, equity holders, and especially creditors should be at the table. And we believe that there should be equal sacrifice. But we also believe that the men and women of the UAW who have stepped up should be given recognition for the three negotiations in which we have already made major concessions. But yes, sir, we are willing to go back to the bargaining table, providing everybody else comes to the table as well.

Mr. KING. Now, if I could ask the auto executives. You heard Mr. Gettelfinger say it sounds like almost ongoing negotiations. Do you feel the other parties will be at the table? Do you feel that you can make the type of progress that has to be made, that Mr. Gettelfinger believes has been made with his people, that you will make with the others?

Mr. NARDELLI. Congressman, if I could very quickly, and then allow the others to comment. In our plan we are asking for \$7 billion. We have also identified \$4 billion of concessions across all constituents, just as Mr. Gettelfinger had identified. We are willing to put in a benchmark date that if not by March 31st we don't have those concessions in line, because that is when we start to realize the benefit of those, then we should be back here and pull the loan.

Mr. KING. Mr. Mulally.

Mr. MULALLY. Yes.

Mr. WAGONER. Our plan comprehends the same approach, to use the short-term advance of funding and the oversight board as forcing mechanisms to ensure that we deliver all parts of the plan.

Mr. KING. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman from Florida, Mr. Klein.

Mr. KLEIN. Thank you, gentlemen, for being here today.

Mr. Chairman, I also want to just voice my support for use of the TARP funds for the auto financing issue. We have heard from a number of our dealers and many others about the lack of availability of financing for customers, and that certainly is one of the factors right now that is dealing with the lack of sales that is going on. So I think that is already out there, but Congress doesn't have to do anything further. It is more of the Treasury's move here to make that available, and certainly I would support that.

Gentlemen, what is going on here in this discussion is a balancing act of what is palatable, what is feasible, what is politically supportable, and what makes economic sense. None of us are experts here, we are all trying to combine together with you and others to come up with a good solution.

I want to throw an idea out that was sort of brought to me by some local people who are economists, people who are business entrepreneurs. And maybe it is just too common sense, but I want to put it out there and see what you think.

We all know about the idea of collaboration and research. We know that you are on different tracks and different points on hybrid and electric vehicles. We know that your competitors overseas are at different stages as well. We all know that in order for you to be not only short term, but long term, and have a sustainable plan, you have to have the most advanced, the most cutting-edge technology on these automobiles that will be attractive for us, as consumers, to buy them here in the United States and everywhere in the world. We want you to be on top of that and at the forefront.

What about the idea of taking whatever level of technology and research you have going on right now and creating some type of joint enterprise, whether it is public, not for profit, maybe some different way of doing it or maybe some private collaboration, taking some of the money that you are asking for here right off the top so the American taxpayer can understand there is something tangible that they are going to see come out of this in terms of long-term sustainability, if they are listening to the discussion today and your explanations, some of it may be supportable in the way they view it, and some may just think we are pouring money back into a problem, but taking part of this and say, let's take whatever technology you have and collaborating together and making that effort to say we are going to do something together, our Manhattan Project, if you will, for the moment, to say in some timeframe we are going to put together the most far-reaching, the most supportable, the best concepts that we can put together, take all that and put it together, and then make it available back to each of the companies for future development and commercialization.

What do you think about that?

Mr. NARDELLI. Congressman, let me say, first of all, I couldn't agree with you more. Two is, we ought to use the \$25 billion that has been approved for fuel efficiency and environmental compliance. We should take a portion of that money and we should create exactly the format you have suggested. Therefore, rather than each of us trying to spend a portion of the money in developing the same technology, we do it collectively, it works back, and we gain our brand identity and differentiation through the vehicles we put it in.

I fully would support that because I think without that we might be trading and trying to gain oil—removing our dependency on oil to dependency on foreign technology. So I would totally subscribe to the concept.

Mr. WAGONER. For my side, in fact in our submission we specifically raised the concept. I would have to put a footnote on that though as far as if the funding is taken out of the request that we have put forward. We would have to tell you how much we actually have in for our own R&D spending just to make sure we balance it out right. But other countries do a lot of their research this way. It is not a coincidence that the leadership in battery technology in the world today is in Korea and Japan. They do things just like you are saying. So I think if we want to move this country to leadership in the next generation technology, this kind of collaboration, plus a heavy amount of government support and basic R&D, is going to be an essential aspect and we would welcome it.

Mr. MULALLY. Sir, I agree. And in a big way we are doing that through our suppliers because, as you well know, about 75 percent of the dollar value of all our automobiles are with the suppliers and they supply to all of us. So we work very closely to make sure that we are targeting the most effective enabling technology so we would bring that on. But that is a great idea also, to take it a step further.

Mr. KLEIN. And I would like not just to talk about through the supplier chain; I understand some of that technology is advanced through manufacturers and research that way. I am literally talking about physically taking this research and these very bright people, I am convinced the brightest people in the world, the scientists and the entrepreneurs, are right here in the United States. And if we took this idea and took each of you in your present form and bring this together under one roof, physically under one roof, and put this out and say this is going to be it, this is how we are going to focus all of our attention on this, obviously you have to stay alive, but I think that is something to consider, Mr. Chairman.

The CHAIRMAN. The gentleman from Alabama.

Mr. BACHUS. As you all know, back in 1980, the government got warrants from Chrysler, and then 3 years after that Chrysler became profitable and Chrysler tried to get out of that obligation. President Reagan went ahead and enforced it and insisted that the warrants not be called back. If warrants were given to you or there were some other agreement as to interest rate at a later date, would you attempt to come back to Congress or to Pennsylvania Avenue and try to get out of those agreements?

Mr. WAGONER. No, sir.

Mr. NARDELLI. No, sir.

Mr. MULALLY. No.

Mr. BACHUS. The one reason I mention that is of course AIG did just that, they borrowed \$85 billion, had an agreement at a certain interest rate, and then 6 months later—or 6 weeks later, actually, they complained that was much too high and it was an onerous agreement. And actually over one weekend they came in, didn't have to come to Congress, didn't have to testify, and they got a lower interest rate and \$65 billion more, which sort of brings me to my second question. And either Union representative, Mr.

Gettelfinger, or you, Chrysler has filed for a TARP application. You haven't had any word on that, right?

Mr. NARDELLI. No, sir.

Mr. BACHUS. You know, Citibank and AIG got relief over a weekend without ever coming to Congress; Congress found out about it after the fact. I am sure you all feel a little singled out, and I think Mr. Ackerman mentioned that. And it is a good point, it is just amazing that there seems to be a glaring double standard.

Chrysler Financial has had an ILC application for 3½ years. And during the last year there has been no moratorium. You still haven't heard about that, have you?

Mr. NARDELLI. No, sir.

Mr. BACHUS. That would help, wouldn't it?

Mr. NARDELLI. It would help tremendously because it would give us access.

Mr. BACHUS. Toyota, and some of you are calling it Volkswagon, they have had that advantage over you. Ford has had a request since last February. Have you heard?

Mr. MULALLY. I have not. It is very important. It could really free up the credit for the consumer.

Mr. BACHUS. Yes, it is amazing to me. And let me conclude by saying GMAC has had an application for a bank holding company for some period of time. You have not heard anything, have you?

Mr. WAGONER. Our application is under consideration.

Mr. BACHUS. Under consideration. You know, Morgan Stanley and Goldman Sachs, they got expedited status because there was a financial problem or because of the financial issues. I can't imagine why you are not being given expedited consideration. But it does appear that our Federal regulators certainly have two tracks, one for Citi, one for AIG, one for Morgan Stanley and one for Goldman, and a much slower track, almost a dirt road track, that you take. And we have urged them, and I know the chairman—

The CHAIRMAN. If the gentleman would yield, you mentioned the moratorium. But even during the period of that moratorium, in our new charter for industrial loan corporations, we had made it clear that the auto companies should not be covered by that. So even during the period of the moratorium, we made that clear with regard to GMAC's application, and others. So I am in total agreement with the gentleman.

Mr. BACHUS. This committee and the chairman and I moved legislation with the support of people on both sides saying if Toyota and Volkswagen had that tremendous advantage, then Ford and Chrysler certainly ought to have it. And it is quite discouraging to see \$7.7 trillion worth of different credit facilities, TARP funds and all of this, and yet when our motor companies appear before these regulators all they do—they certainly don't do anything.

Thank you.

The CHAIRMAN. The gentleman from New Hampshire.

Mr. HODES. Thank you, Mr. Chairman.

I want to thank the witnesses for appearing today, and thank you for the work you did in putting together your business plans. I think they have gone some way to showing that you are connecting the dots because a couple of weeks ago, at least what I heard from my constituents, was that you folks simply were in an-

other universe and you weren't connecting the dots and that you didn't have the answers that people expected before exposing taxpayer money, again, given what we have just done with the financial system bailout, to loss of taxpayer money.

I am not opposed to helping your industries. I think that they are crucial to our economy, the jobs that are connected are upper most in my mind. I have met with representatives of the UAW in New Hampshire, I have met with the auto dealers who, despite the fact that a third of them are going to disappear under the best of circumstances, are supporting helping the auto industries. But I think that, even assuming your business plans worked and we spent \$34 billion, what I am hearing here today from my colleagues, and what I have heard from others, including the auto dealers, is that is only one-third of the problem. You can hold yourselves open for business with the money we give you, the \$34 billion, and I think that is a short-term fix, it will get you on the road, but not get you down all the way to a long-term transformation. But the issue with the credit availability is a serious, serious issue. That is the second component to the true cost to the taxpayers.

And so you have heard from the ranking member and the chairman that there is support for the idea, perhaps, of the transformation of bank holding companies and ILC, and also from other members about accessing the TARP funds. What amount of money do you put on the need of the credit companies, whether it is spent in an asset purchase program or direct injection, or whatever Secretary Paulson comes up with as plan A, B, C or D, what amount of money for the credit companies do you see as necessary? And would they accept conditions that say the money they get has to go for auto loans as opposed to what we did with the bailouts where the banks are sitting on the money? That is question number one.

And number two, don't you think we also are going to realistically need incentives for consumers who are worried about losing their jobs, losing their houses, and are frankly concerned about spending \$30,000 or \$40,000 on a car purchase? And if that is going to be required, what is the dollar amount, what is the plan for that, how do you think it ought to happen, and aren't we really talking about a really much bigger number than \$34 billion when those are factored in?

Mr. NARDELLI. Well, let me, first of all, sir, answer the first part of your question. Chrysler Financial, that is what they do. It is the easiest and the cleanest allocation of funds that you will see. They basically provide about 70 percent of consumer loans and close to a similar amount of floor planning. Our dealers have been tremendously disadvantaged relative to the rates, as we went out and got a new conduit and what they have to pay there. So termination of the lease program took 20 percent of our volume away, and the fact that dealers now cannot floor plan beyond 1 year has imposed additional hardship on them. So the support for our financial institution, the financial arm of our company is important. The short-term request for Chrysler was about \$1.6 billion for wholesale, that request is in, and another couple of billion to support retail, so that when consumers come in, they can get competitive rates and they have access to loans.

Today, at a 700 to 750 FICA score, at least our consumers, the hardworking men and women of America who buy our products, just aren't qualifying.

Mr. HODES. So is Chrysler's answer \$4 to \$5 billion on the credit side?

Mr. NARDELLI. That is the current request that is in today.

Mr. HODES. And do you think that is sufficient under the current circumstances?

Mr. NARDELLI. Along with getting ILC that will allow us then to sell paper, to increase the capacity, and we will be able to get that flow going back through Chrysler Financial, supporting our dealers, supporting the consumers.

Mr. HODES. GM, Ford.

Mr. WAGONER. Our situation is a little different. Our finance company, which we only own 49 percent of, is applying for a bank holding company status. And if they achieve that, they would then be eligible over time to access funds that have already been appropriated under the TARP. I can't give you that exact amount now, I can check and try to get back to you. But it is critical.

The CHAIRMAN. Mr. Mulally, if you can go very quickly.

Mr. MULALLY. As you know, we are in a very different situation because we have our own finance company. And the relationship that you are talking about is very important. We support 77 percent of all the wholesale financing. And so what we have in for the short-term, asset-backed commercial paper with the Federal Reserve is \$16 billion, and we have accessed \$4 billion of that to support the customers.

The CHAIRMAN. The gentleman from California, Mr. Royce.

Mr. ROYCE. Thank you, Mr. Chairman. I would like to ask a question of Mr. Wagoner and also Mr. Mulally. And it goes more to the long-term question of Ford and GM because over the last few years, Ford and GM internationally have performed very, very well. And one of the questions I have is what is it about the business environment or the tax structure or the operating costs, as you go down the reasons for the success for Ford and GM in past years and looking forward over the long haul, why they are projected to do well overseas and international competition and why it is a greater burden here. I would like a discussion from each of you in terms of what some of those determinants are.

Mr. WAGONER. I will be glad to start. When we go into new or newer markets, frankly we don't take some of the burdens of the past that we might have for being in business in the United States for 100 years, so we get to use, you know, all of our accumulated knowledge of the industry. But then as we go into new markets, we go in on an unencumbered basis. Frankly, not so different than some of the transplants who have come to the United States later, they come using the latest knowledge, the latest thinking about dealership structures and things of that sort. So sometimes, ironically, coming a little bit later can be an advantage.

So the reason that we have been successful in growth markets is we really use our global capabilities and we build up with the latest best practices, whether it is lean manufacturing or when it is the right product technologies, whether it is the right distribution strategy. So I think that is a plus. And by the way, those over-

seas businesses, over the last several years, almost uniformly have been quite profitable. And they have, in almost every case, been able to send dividends back to help us address funding issues in the United States.

I think the other thing that we have struggled mightily with here in the United States is the fact that we have had huge pension and post-retiree health care obligations. Our report indicates that we have spent about \$103 billion over the last 15 years to fund pensions and post-retiree health care obligations. Those were responsibilities that we had from our past, and so we felt it was appropriate to try to fund those. But in all candor, that is a use of cash that in a newer market we wouldn't have to allocate funding for. And obviously if we had the \$103 billion and could use it for other things, it would enable us to be even farther ahead on technology or new equipment in our plants, or whatever.

So I think that is maybe two of the points that I would cite there. But I do want to highlight that a lot of that is behind us now, thanks to the funding we have put in and the work we have done with Mr. Gettelfinger and his Union. So we do think we have a lot of those issues behind us now in the United States, and so we are looking forward to our next 100 years here with a cleaner slate, if you will.

Mr. ROYCE. Let me ask Mr. Mulally the same question.

Mr. MULALLY. You bet. As you all know, Ford has grown up as a global company, very regionally operated though, but because of that we had just an absolute laser focus on the Ford brand. And in the United States over time, especially with our cost structure in the United States and fuel prices being relatively low and low interest rates, we were focusing on the larger vehicles, the SUVs and the trucks. Well, around the world, the majority of our vehicles are much smaller. And we all know how neat they are because the fuel prices are relatively higher.

So going forward, especially because of the work we have done with the UAW where we can now make smaller vehicles in the United States profitably, we are leveraging all of those fabulous vehicles from around the world in the United States, so we will have a balanced portfolio now of small, medium and large cars, utilities, and trucks. I think we are going to be able to profitably grow now in the United States using those lessons learned from around the world.

Mr. ROYCE. Let me also ask you, the spread here that we have seen on auto loans, and asset-backed securities in general, getting back to the ranking member's question, just how much of a benefit would it be since your competitors, for example—well, Toyota operates under an ILC. If it were possible to achieve the bank holding company position, or the ILC status, how much of a difference would that make in that very large spread right now? Would that diminish those costs in financing significantly if you were on par with your competition?

Mr. WAGONER. It would have a huge impact for us because right now we either can't get credit, or the spreads have moved up dramatically. And if we had a bank holding company status and then you would have deposit taking capability, the cost of funds would

go down. I can't give you an exact basis point on that, I could look it up and get back to you, but it would be a tremendous advantage.

The CHAIRMAN. The gentlewoman from Wisconsin.

Ms. MOORE OF WISCONSIN. Mr. Wagoner, you mentioned in your last response, you talked about the legacy cost, which, as you said, in the last 15 years they have cost you \$103 billion and it has constrained investment in more advanced manufacturing product technologies. And you have a very elaborate plan. Wouldn't this have been a great time for GM to say, we need a national health care program in order to stay viable? You correctly identify the problem that other markets—China, Latin America and Russia—where GM doesn't have the burden of those costs. Why did you stop short of saying that this kind of initiative would help our industry?

Mr. WAGONER. Well, it undoubtedly would help to level the playing field for the industry. I remember back to when President Clinton first brought forth proposals on health care back in the early to mid-1990's, our chairman and my predecessor, Jack Smith, was a very proactive proponent of it, and we have tried to be very active in the health care debate since here in Washington, but our endorsement per se wouldn't necessarily have resulted in the enactment of a policy. But our competitors do, in most other countries, operate with a significantly greater government role in health care.

Ms. MOORE OF WISCONSIN. But it is very much not a part of your plan here.

Let me move on to ask a question about the warrants and about the first position of taxpayers. How can taxpayers manage to retain a first position, GM and Chrysler, if, in fact, you plan to honor all of the trade debtors in other countries? Can you just walk through for the committee how you would be able to do that?

Mr. WAGONER. We at GM have a fairly significant collateral pool that has not been pledged yet of assets, for example, our ownership position, overseas subsidiaries, and trademarks. And so, as one thing, we could offer that as collateral against any borrowing that we do, and that would be a first lien for the government.

Mr. NARDELLI. And in our position, our assets are all securitized against the first lien, and therefore it would take a congressional action to subordinate that to the government loan.

Ms. MOORE OF WISCONSIN. I think one of the things that makes a lot of people nervous, there are conservatives and so-called liberals, and I think that there are nervous people on both sides, and, Mr. Gettelfinger, your Union has made a lot of sacrifices in this. I appreciated your testimony setting the record straight that the \$73 an hour amount really was mostly these legacy costs. And you have made agreements, apparently, to cut your workforce severely.

I guess I would like to hear the narrative or, you know, what do we say to folks if we approve this plan, and yet there are 20,000, 25,000 workers who are going to be laid off, a severe constraint in the supplier and dealer market, what do we say as we vote for this plan?

Mr. GETTELFINGER. Well, first of all, thank you for pointing out the sound bite, the \$73 sound bite, because that is clearly what it was. But secondly, there has to be a restructuring in the industry. And what this is about, this is about survival at this point in time. And there are going to be, unfortunately, losses. There are going

to be facilities closed down, we understand that. We are going to lose dealerships, we know that. And we are going to lose suppliers. But what is the end result if we do nothing? That is the question. And as hard as it is to have to say that, that is reality. We can't sugarcoat it, we can't stick our head in the sand. It is what it is.

The thing is, if we can just get through this economic downturn, then we can hope that there will be growth in the industry and we can rebuild and move forward to a brighter future.

Ms. MOORE OF WISCONSIN. Thank you. I yield back.

The CHAIRMAN. The gentleman from Illinois, Mr. Manzullo.

Mr. MANZULLO. Thank you, Mr. Chairman.

I am quite distressed over the continuous talk coming from the Big Three that there is no money available for consumers to buy your automobiles. Credit unions, local branches of national banks, and community banks are loaded with money and are ready, willing, and eager to give to people to buy your automobiles.

On the current business environment on the Ford, page 3, quoting the Federal Reserve's senior loan officers, it says, "Over 60 percent of banks have tightened standards for consumer credit." That is not the case. I talked to a bank yesterday. I said, "Have you changed any standards in the past year?" He said, "No." He said what happened is the Big Three set up their own financing arm and they pushed the community banks out of lending. And then you come back here, and you have created much of the crisis among yourselves because you created your own subprime market in automobile loans that is sitting out there because it was too easy credit to people who couldn't afford to buy the automobiles that you sold to them. That originally is what TARP was set up for was to buy that back.

And now, Mr. Wagoner, you want to go into the commercial banking business. You want to be able to take demand deposits or set up checking accounts. I mean, you would be a bank on the order of Wal-Mart, which we stopped, and Mr. Nardelli, of Home Depot, which we also stopped. Why would an automobile manufacturer go into the commercial banking business and wreak havoc on the community banks, credit unions, and local branches of national banks? You are there to make cars, not to run a banking operation. That is part of the bailout, so that you can become a commercial bank? I don't expect an answer because there is no good answer to that. Your job is to make cars.

And the other thing is I noticed that both Ford and GM have overseas subsidiaries that are doing quite well. My question to each of you is, have you taken advantage of the IRS 60-day window to bring back profits from overseas operations to infuse them into your domestic operation without having to pay 35 percent tax? Mr. Wagoner, have you done that?

Mr. WAGONER. Yes. We have remitted all of the available funds. This isn't an issue for us because we have an excess tax credit position.

Mr. MANZULLO. You have already brought it back?

Mr. WAGONER. Yes.

Mr. MANZULLO. Mr. Nardelli.

Mr. NARDELLI. The same for Ford.

Mr. MANZULLO. The other question that I have is for Ford. On page 17 of your plan, you state that you want to accomplish the goal to increase more car profitability by improving cars at competitive levels through reduced complexity of global purchasing skills. Does that mean you are going to be buying more fasteners and tool and die from China to infuse into American cars?

Mr. MULALLY. It means that we are going to try to standardize more and more on all of the parts as well as simplify the vehicles—

Mr. MANZULLO. Would you answer my question, please?

Mr. MULALLY. We operate all around the world—

Mr. MANZULLO. I understand that. Does that mean that we are going to lose more fastener and tool and die industry in the United States because you are going to be buying those from the Chinese—

Mr. MULALLY. Absolutely not. Our goal and the plan that we have presented grows our business in the United States.

Mr. MANZULLO. I am talking about the suppliers.

Mr. MULALLY. Our plan is to grow the business, including our suppliers, in the United States.

Mr. MANZULLO. So you are telling us that if you get the money—and by the way, I think everybody in this room is in favor of getting the needed \$25 billion that is already there—is that, based upon this statement on page 17, that you are not going to be increasing purchases from Chinese and other overseas suppliers of tools and dies and fasteners?

Mr. MULALLY. Yes. What we meant by that, part of our strategy is to make them the same standard, not necessarily where we buy them. Our plan is to grow our business in the United States.

Mr. MANZULLO. You didn't answer the question. Are you going to use U.S. taxpayer dollars to source more tool and die equipment and fasteners from overseas facilities for American manufacturing?

Mr. MULALLY. No.

Mr. MANZULLO. Thank you.

The CHAIRMAN. The gentlewoman from Illinois, Ms. Bean.

Ms. BEAN. Thank you, Mr. Chairman.

I thank you all for your testimony today. I am sure you all wish you were here under better circumstances. And I know most of us here appreciate how integral the auto industry is to the economic fabric of our Nation. I know that as I travel to visit manufacturers in the Eighth District of Illinois, most of them that I visited are part of your supply chain, and their own economic viability is very much tied to yours.

We have also seen dealer closings in my district and heard from the mayors of those municipalities who will suffer the tax consequences of those closings.

In your proposals, you highlight the strides that you have made in recent years relative to development of electric hybrids and more fuel-efficient vehicles, and yet when you hear from most Americans, they don't seem to know about those accomplishments and improvements that you have made. Most business plans that I have looked at from my business past, one of the most critical parts is marketing. And my question to you is, while you seem to, in your proposal, talk about narrowing the gaps operationally and economically to compete, you seem to fail to miss the part where you are truly failing is in marketing to your potential customers. And so

my question is, what will you do to market the improvements you have already made and any subsequent improvements you make, because having the best mouse trap isn't going to necessarily get you there.

Mr. WAGONER. I think it is a great observation, and I think one of the earlier questioners highlighted a frustration that we have that some people have a view on a quality gap which doesn't exist anymore. So it speaks well to your point.

From our perspective, I think the world of marketing has changed a lot. The old days of network TV is not as effective as some of the new ways. So we have put a lot more effort ourselves into Internet-based marketing and I would say trying to put more of our efforts into finding ways to use broader communication approaches on new technologies. So things like the Chevy Volt would be an example of a breakthrough, brand-new idea, no one else is working on that. It is a great piece of engineering, technological work. But we have obviously been much more open than we have ever been in developing a product, and taking it to market, and showing it around the country, and showing here is where we are on the battery development. I actually drove one of the early models up to the Senate yesterday. And so I think using the knowledge—and the facts of what you are really doing to tell your story in some ways is more effective than the old fancy commercials.

Ms. BEAN. If I might, I think with the road trips and driving down here and making some stops along the way was a good thing to do, but I would boldly suggest that you do more of it. Were there further comments on that?

And I would also like to speak specifically even to the cooperative marketing funds spent by your dealers. If you open a Sunday paper and you look at the auto ads, your foreign competitors are talking about miles per gallon on their vehicles. The American ads do not include that, which leads consumers to think that you must not have something that you are proud of to be talking about. And will you impose some restrictions on those cooperative marketing funds to your dealers to make sure they are including that?

Mr. MULALLY. An absolutely other great point. To your point, when you look more at the local advertising historically, it would be more about the deal and not capturing the real value of the products. And a couple of things that have really worked for us over the last year, because, as you know, our market share has stabilized. And we are starting to actually grow again, is to really stress the value of the products. And the biggest ones on the consumer's mind has been quality, sustainability, and fuel mileage, safety, and then great value. And another thing we have used are third-party assessments. So we provided a lot of data, a lot of information on a lot of the vehicles.

And right now we are rated equal to or above the best in the world on quality, on sustainability. Every one of our new vehicles now is equal to or better than the competition. And on safety we have the most five-star ratings of any manufacturer, but we have to use every mechanism we can to get that message out in addition to the good value.

Mr. NARDELLI. Great suggestion. One of the things we did to try and dispel the whole issue of reliability and durability, and we

really have tried to bugle it loudly, is our lifetime warranty on our power trains. And the dealers have been tremendously supportive of that advertising. I think as we gain momentum in our product portfolio on more energy—as I said, 79 percent of our products will show fuel efficiency year over year. Your point is spot on.

Ms. BEAN. My last point is that also have your PR work the media a little better, because the coverage you have been getting certainly hasn't framed this very well, and you are not getting the credit that you are due in certain areas.

Mr. NARDELLI. Thank you.

The CHAIRMAN. The gentleman from Texas, Mr. Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman.

Gentlemen, there is no reason you should remember everyone's opening comments, but there are several aspects of your request that trouble me. One is if you get the money, then who doesn't get the money? Can you name me three industries in this economy that aren't hurting, that couldn't use \$34 billion? I can't think of them. I have had homebuilders in my office. I have talked to representatives of the airlines, the largest poultry producer—I believe it was the largest, perhaps second largest—Pilgrims Pride, not located in my congressional district but nearby, just filed for Chapter 11; 50,000 jobs in east Texas are being threatened.

So I wonder what the standard is. Is it simply because you are bigger or perhaps in more pain than other industries in the economy? That troubles me. So if we say yes to who—to you, who do we say no to?

I ask this somewhat rhetorically. I know two—I know the answer. I assume nobody at the table has ever heard of Williams Paint and Body Shop in Mesquite, Texas, hadn't heard of Jacksonville Industries in Jacksonville, Texas, hadn't heard of the Kinnis Framing Contractors in Chandler, Texas. My assumption is you haven't heard of these businesses. They are small businesses located in the Fifth Congressional District of Texas. One has unfortunately failed. The other two are struggling in this economy.

So the second question I have about your request, given that small businesses create three out of four jobs in America, if the purpose of Congress is to try to help our economy, save jobs, create new jobs, why should you get the \$34 billion and not small business, or is it only the small businesses that service the auto industry that should be recipients or beneficiaries of this money? If anybody cares to address that, I would like to hear it.

Mr. NARDELLI. Let me try, please.

I don't think anybody has been immune from this financial crisis that we are going through today in this economic trough. I certainly understand your point of view, And as we look at it from our perspective, the auto industry, I think at least one of the companies you mentioned is, in fact, impacted by the auto company or in support of the auto company. If you look at—you know, again, I look at our business, our dealers, 3,300 of them are small-business men and women. These are very comparable to the examples that you gave us. And the only point I can offer is that a strong OE—in our case, there is about a million people depending on Chrysler's success. So I am certainly not justifying because we are bigger, I

am merely presenting the point that we may have a broader impact across the country, sir.

Mr. HENSARLING. Let me ask another question. There was a report on CBS News last night that you gentlemen have spent roughly somewhere north of \$50 million on lobbying fees for the first 9 months of this year. I don't know if anybody cares to challenge the accuracy of that report. If not, I would simply point out that the three businesses, small businesses, in my district certainly don't have that advantage.

I don't begrudge you your constitutional right to petition your government for redress. That is not my point. But my point is clearly we have heard of your name. Clearly you have people that you can afford to represent you in Washington, D.C., small business can't. So something strikes me as patently unfair.

But I do have a specific question about the lobbying fees. Can any of you tell me what portion of those fees were used to lobby Congress to remove the restrictions on the money that is already in the pipeline versus trying to get the additional \$34 billion?

Mr. NARDELLI. I have been given a number. Zero, sir.

Mr. HENSARLING. Zero. Zero has been spent on either this trying to reprogram the earlier money or to get this additional money?

Mr. NARDELLI. I am sorry?

Mr. HENSARLING. I am sorry, Mr. Nardelli. Zero has been expended where?

Mr. NARDELLI. I think your question was how much has been spent on reprogramming money.

Mr. HENSARLING. I thought it was an either/or question as far as how does the \$50 million break down.

Mr. NARDELLI. I don't know the answer to that.

Mr. HENSARLING. Thank you.

Last question; I know my time is running out here.

The CHAIRMAN. It is about out; 3 seconds.

Mr. HENSARLING. Thank you, Mr. Chairman. I will yield back.

The CHAIRMAN. The gentleman from Indiana, or is it the gentleman from Illinois?

Mr. DONNELLY. I went last time.

The CHAIRMAN. I thank the gentleman for his honesty.

The gentleman from Illinois.

Mr. FOSTER. Your viability plans assume a significant recovery in the unit volume over time, And I would like to poke a little bit at how realistic this might be. One of the things that has been mentioned anecdotally is that cars are lasting longer, And it is no secret that in flat economic times, that will result in a drop in the number of new vehicles required each year. Have you made efforts to quantify this?

If you look at the fleet of vehicles that have been produced over the last 10 years and will be wearing out, what does that mean in terms of the anticipated number of vehicles that have to be replaced? And is there a number you can attach to that, any of you?

Mr. WAGONER. I don't have it with me, but we can get it for you.

Mr. FOSTER. Do you have a feeling whether this means that there would be a 20 percent drop? It is my feeling that cars last a lot more than 20 percent longer than they used to, and that would naively lead to a 20 percent drop in flat economic times. It

seems to me that if you are really trying to make projections that aren't just seat-of-the-pants things, that would be an important factor to understand.

Mr. WAGONER. We have that data. I don't have it with me, but we would be glad to review that, and we could get our experts to show you the whole model we use.

Mr. NARDELLI. I would only answer in that our forecast for 2009 is the exit rate of 2008. In other words, we are looking at the 10.5 exit rate as an entrance rate and basically holding that depressed level, that significantly depressed level, 35, 40 percent year over year, throughout 2009. And as we were asked to also do a sensitivity analysis, we took that down another million units in the industry to 10, 10.1. And basically with the request that we have asked, even at the lower level we still would be able to repay a billion dollars back to the taxpayers by 2012.

Mr. FOSTER. My second question has to do with offshoring of components and subassemblies, as you mentioned in various testimony, 70 or 75 percent of the value added in a car, which presumably means 70 or 75 percent of the jobs come from subassemblies. And I was wondering if you anticipate being able to become cost-competitive with the transplants, particularly for small cars, without increasing the offshore component value in your cars.

And secondly, just how does that compare now between the three of you and between you and the transplants in terms of the fraction of the value that is offshored in a car today?

Mr. NARDELLI. I don't know exactly on the transplants; 78 percent of our purchase material is from U.S.-based suppliers.

Mr. FOSTER. By U.S.-based, do you mean U.S. manufacturing plants?

Mr. NARDELLI. No, no. U.S. manufacturers.

Mr. FOSTER. So that a battery manufacturer with a plant in Mexico qualifies as U.S.-based by that definition.

Mr. NARDELLI. It could, sir. I don't know that secondary split out of that. But 78 percent of the materials from a U.S.-based supplier.

Mr. FOSTER. Well, there is a certain amount of pain that has happened by suppliers moving their bases offshore.

Mr. NARDELLI. I don't know the—

Mr. FOSTER. So developing that number for us would be very interesting both now and for your projections and for the transplants, getting a comparison, seeing if we are going to see a continuing hemorrhaging of jobs under the business plans you are talking about.

And I guess the third quick question is how many of you are personally confident that there will be a solution to the battery problem, that this won't be this decade's fuel cell, hydrogen fuel cell, that is just something everyone talks about and then, in fact, never becomes economically reasonable? And maybe I will just attach a number to it. What year do you think there might be a battery that is cost-competitive and performance-competitive with the gasoline engine?

Mr. WAGONER. I am personally confident. We are putting a lot of money, for example, in this Chevy Volt that I mentioned before which we are endeavoring to get into production in 2010. It will not, obviously, at that point be fully cost-competitive. I would say

we should expect two generations of vehicles to do that. So maybe a target would be 2016, 2017 we would be completely cost-competitive. But that is going to depend on volume. So if we can get volume up faster than that, then the opportunity to be cost-competitive could be something.

Mr. FOSTER. As I understand it, you do not have a battery car that is technologically competitive right now, not to mention cost-competitive.

Mr. WAGONER. Well, actually, I drove one yesterday that will leap ahead of what anybody has on the market in 2010, the Chevy Volt extended-range electric vehicle.

Mr. FOSTER. But it is not performance-competitive with the gas car, correct?

Mr. WAGONER. I tell you, I drove over today—you mentioned fuel cells, but the way the fuel cell drive is a proxy for an electric vehicle, because it is an electric vehicle, it drives in some ways better than a gasoline-powered vehicle.

Mr. FOSTER. But in terms of range and battery lifetime and all these issues that people have failed to succeed after 100 years.

Mr. WAGONER. That is why the concept that we are putting in the Volt, which is an extended-range vehicle which always runs on the electricity, has a battery which gets you 40 miles, and then you can recharge the battery with a very small, efficiently running internal combustion engine, is, I think, a good solution.

The CHAIRMAN. The gentleman from New Jersey, Mr. Garrett.

Mr. GARRETT. Thank you, Mr. Chairman.

Again, thanks, members of the panel, for being here.

Let me just follow up on a line of questioning. It seems that there is a spectrum of ideas out here of potential actions or inactions that Congress could take. On the one end, Congress could say they are not going to do anything; on the other end of the spectrum, Congress could come back and say, we are going to pass a piece of legislation with all the bells and whistles of oversight and so on and so forth for the full \$34 billion. And somewhere in between there is, of course, maybe alternatives.

One of the alternatives that the gentleman from Texas was referencing a moment ago—I think it is one of the alternatives—is the idea—his phrase of reprogramming the \$25 billion that is already approved and signed into law and what have you.

So let me just throw that question specifically out to you. If Congress in its wisdom decides not to take either end of the spectrums of actions today or in the next few days on this, is an alternative to take the reprogramming idea? And if we did craft some sort of legislation with regard to reprogramming that \$25 billion, could we do it in a way that we would, say, reprogram a portion of it? And the numbers that I am hearing here off the back of the page was around \$9 billion, \$4 billion and then \$4 billion, and so on. So is there a cumulative aspect of, say, we just reprogram a portion of that \$25 billion and free up those dollars in cash to your hands without the restrictions that those bills have right now?

Mr. NARDELLI. In the short term, at least from Chrysler's perspective, we are certainly open to whatever makes the most sense for Congress as far as making the bridge loan available to help us get through this trough, point one.

Point two, in our plan, to be absolutely clear, we have a request in for \$7 billion in the bridge loan, but we also—our original request in for the 136 money was about \$8 billion. We were told to assume somewhere between 70 and 80 percent. We have \$6 billion built in our plan, assuming we would get some of that starting in 2010, 2011, and 2012 based on the process as we understand it today.

Mr. MULALLY. We have sufficient liquidity.

Mr. WAGONER. From our perspective, we said however the short-term funding comes is up to the Congress. I would need to point out, though, that we have already filed \$8 billion worth of—actually not projects, but the expected funding from those that would come out over a several-year period under 136. So if that was all drawn down now for short-term needs then, you know, in the future we would hope that 136 could be replenished as well.

Mr. GARRETT. I only say this because I know the dilemma that Congress finds itself in as far as the two ends of the spectrum, and also the fact that we know from your testimony here and the Senate testimony as well and other questioning that we hear that the numbers may be larger down the road besides the \$34 billion. And I think one of you gentlemen, I forget who, testified in the Senate that March 1st or March 31st might be a point in time that you would be coming back after the negotiations and everything were all done. This might be that proverbial middle ground.

Secondly, one of the questions I—or comments I made during my opening statement was with regard to one of my major concerns, and that is States' rights and the issues of the dealers that are out there. Can any of you address the issues of what really would be the savings, and why is there savings with regard to the dealers out there and the shrinking of the dealerships? Because I am told that as far as the dealer is concerned, that he operates his own shop, he pays his own bills. You may have some kickbacks as far as advertising and that sort of thing and like that, but he buys those cars sitting on his lot, right, or are financed, but those are his cars. Can you explain to me why there would be such a significant savings by violating a State's rights and the contract agreements that are already out there?

Mr. NARDELLI. So for us, Chrysler, I mentioned the 2 points about the 500 dealers; 250 or so are already gone because they have had to declare bankruptcy. The other 250 are on credit hold. Our program—we call it Genesis—is more about helping assure the profitability of the dealers that are out there, particularly in the metro area where we may be overdealed. So we work in a harmonious way with them to make sure that the dealer consolidation as we try to go to one dealership with all three brands so that we don't have and they don't have the expense associated with trying to cover multiple brands and—

Mr. GARRETT. That is really their problem, isn't it?

Mr. NARDELLI. We want to help them. They are an integral part of our success. Without the dealers and strong financial dealers, we can't be successful, sir.

Mr. WAGONER. Are you talking about the issue of State franchise legislation? A lot has been discussed about that. Our plan can be accomplished without changing that. And obviously if you have

more regulatory regimes, sometimes it can slow you down. But we are not assuming that there is a need to change State franchise legislation to accomplish our plan.

Mr. GARRETT. I see a yellow light. If I have the time—there is the red light.

The CHAIRMAN. Your time has expired.

The gentlewoman from California.

Ms. SPEIER. Thank you, Mr. Chairman. And thank you again, members of the panel, for joining us.

At our last hearing, I asked you each whether or not you would meet the fuel economy standards that were scheduled for 2020, to meet them in 2015. I think each of you said no, you couldn't do it. And I was stunned by that because in 1960, President Kennedy said we will have a man on the moon by the end of the decade. NASA didn't have a clue, and yet we got a man on the moon by the end of that decade.

The European Union is scheduled to have a fleetwide fuel economy standard of 50 miles per gallon by 2015. Are you still of the opinion that you cannot meet those standards sooner?

Mr. WAGONER. From our side, we have a big business in Europe, so we meet those standards. I would say one thing, frankly, that has been done in Europe differently than the United States is tighter coordination of energy policy issues. So as you probably know, for example, in Europe, one of the things we have had for many years is much higher prices of gasoline due to higher taxation. So consumers, then, react very rationally. So our product mix in Europe is very much smaller.

The CHAIRMAN. Excuse me. Apparently, there was a miscommunication. The gentlewoman did get to ask questions of this panel the last time, I believe, and this was reserved for people who had not asked the last time. That is what we had announced earlier. So we will conclude the questioning there. I believe the gentlewoman did previously—

Ms. SPEIER. That is absolutely true.

The CHAIRMAN. The gentlewoman from Florida.

Ms. BROWN-WAITE. Thank you, Mr. Chairman.

I have a large number of retirees who live in the Fifth Congressional District in Florida, both former union members, retired union members, and I have some auto execs. So I take this whole issue very, very seriously. It really is about their future and also the future of their children and grandchildren who may want or currently have a job in the industry.

But one of the things that I think we need to be very careful of is that we are not unduly causing concern, because if bankruptcy is necessary, reorganization, people need to be assured that the Pension Benefit Guaranty Corporation, albeit in the red—which we will have to address that issue—will be there for those pensioners. And I wanted to make that statement because I have heard from so many who are afraid that their pensions are at risk.

Mr. Nardelli, I have a question specifically for you. If the private equity company that currently has the major holding in Chrysler has \$24 billion currently in assets, and they will not put forth any more money to stave off bankruptcy, how can we in good conscience

expect the taxpayers to take on this substantial cost? And I would appreciate hearing from you.

Mr. NARDELLI. Sure. It is a question that has been asked yesterday. And just to try to bring some clarity, the private equity firm is a composite of many investors. They are made up of pension funds, they are made up of teachers' funds, State funds. So they have the same regulatory responsibility, fiduciary responsibility, as a publicly traded company would be relative to those fiduciary responsibilities. So it is not an issue, one, of them being able to commit on the behalf of those investors to put more in, number one. Number two—

Ms. BROWN-WAITE. Did you ask?

Mr. NARDELLI. Yes. Exactly. We have asked them. We have asked every major financial institution; all 100 of those that got TARP funding we have asked for funding. We have gone offshore asking for funding.

Ms. BROWN-WAITE. And the private equity company said no, correct?

Mr. NARDELLI. First of all, let me be clear. They already put the equity in to create the company. We did another \$2 billion draw-down on equity on the car side. They have continued to put more equity into our finance company to make sure that the car company could continue to provide consumer loans and wholesale support. So I want to be clear, it is not as if they haven't continually tried to provide financial support for us over this period. And just finally, they have publicly said that on any carry-forward interest, they won't profit—and they have also on their second lien been willing to convert 100 percent of that to equity.

Ms. BROWN-WAITE. Thank you.

And my question for the three auto manufacturers is, obviously overcapacity has been part of the problem. You have a combined market share of about 50 percent, 52 percent in 2007, but there are—nearly 70 percent is accounted for your various brands' dealerships, of dealerships throughout America. How many of those do you expect will be closing over the next 4 years even with a bailout? That is question number one.

And question number two is, what are you doing to help those dealers out there, whom every Member of Congress has heard from, to help the dealers with the excess inventories that we have now? I would appreciate hearing from the three of you.

Mr. WAGONER. Our plan calls for a reduction in the number of dealers of about 800 over the next 4 years. Individual dealers make the call that they don't want to stay in the business because the economics don't work for them anymore, or we have cases where we might have five dealers in a city, and we only—really only four can be profitable, so we work to try to consolidate them. What we are trying to do—their profitability is critical for us, obviously because if they are not profitable, they are not there to support our new product launches.

So what we are trying to do is be very diligent in—for example, not overproducing the number of vehicles that we ask them to carry in inventory right now is the biggest thing we can do, along with helping with financing support.

The CHAIRMAN. The gentlewoman's time has expired.

Ms. BROWN-WAITE. Mr. Chairman, could I ask them, though, to submit their answers in writing?

The CHAIRMAN. Yes. I appreciate that. Any questions that you do not get a chance to answer or you want to elaborate on, please submit in writing. And indeed any Member who has questions in addition to those asked, submit them through the committee. We will get responses in writing. We ask obviously that they be done fairly quickly.

I now recognize myself for 5 minutes to talk about health care. Mr. Wagoner, how much are you obligated to put into this new health facility that came out as a result of the collective bargaining?

Mr. WAGONER. Beyond what we already have put in it over the past several years, it is about \$20 billion more.

The CHAIRMAN. Over what period of time?

Mr. WAGONER. Over a period of time, as I recall, it was about 8 to 20 years.

The CHAIRMAN. \$20 billion in addition.

How about Ford and Chrysler, what are your ongoing, looking forward obligations for health care? You don't have—do you have the—

Mr. MULALLY. Yes. And we have put in \$3 billion, and we have \$7 billion more to go.

The CHAIRMAN. You have \$7 billion more to go?

Mr. Nardelli?

Mr. NARDELLI. We have \$11.3 billion more to go.

The CHAIRMAN. So that is \$38 billion, if I add correctly, more than you are asking for in health care. That is very relevant. One of the questions we have is if we were to provide some bridge financing now, this Congress has already been burned by financing a bridge to nowhere, and I think we don't want to repeat that. So we would like some assurance that it is a bridge that has another terminus. The relevance of that is I hope that in the next Congress, working with the new President, we will be doing something about health care. Is it then the case that to the extent we could have a national health care plan—because I don't think anyone thinks it makes any sense to do anything that is specific to one group of employees. But if we were able to establish some form of health care at the national level which shifted the burden away from this employment nexus to the extent that we could reduce this, we would be enhancing the likelihood of success; is that accurate?

Mr. WAGONER. Yes, sir. And beyond the numbers we just gave you, we have ongoing every year health care costs for active employees. It would help us additionally.

The CHAIRMAN. Mr. Nardelli?

Mr. NARDELLI. Yes, sir.

Mr. MULALLY. Yes, sir.

The CHAIRMAN. Mr. Gettelfinger, I think the Union has gotten far too little credit, first for the creativity of the agreement to allow this shift for the retirees, but also, as I understand it, the agreement—well, just tell me what the recent announcement was about what you would be willing to do with regard to health care.

Mr. GETTELFINGER. Well, sir, in 2005, we made the initial—what we refer to as the 2005 VEBA, which is Voluntary Employee Bene-

ficiary Association. As in the case of General Motors, that took \$18 billion of their old pay obligation off of their—

The CHAIRMAN. But you just made a decision to even ease that. Tell me what that was.

Mr. GETTELFINGER. But then in 2007, we put it all in there based on these commitments. Like on January 1, 2010, General Motors owes \$7 billion, Ford owes \$4.4 billion, and Chrysler owes \$3.5 billion.

The CHAIRMAN. What did you just decide to do?

Mr. GETTELFINGER. What we have decided to do, sir, is to draw out that obligation, to remove that immediate liability off of their books to put them in a position—

The CHAIRMAN. I appreciate that. So you have made a significant offer here that puts off the need for that. The relevance of it is—and I do want to think about how we can be constructive—that gives us more time to fashion a consensus on a national health care plan, so that if, in fact, we were able to do that, to the extent that we have a broader plan, that deferral could then become forgiveness altogether. And I think that is very important. It shows the linkage.

First of all, one of the burdens you have been under is the requirement to do health care. I always find the best comparison to be between the costs in Michigan and the costs in Ontario, because people can't blame unions. Your sister union in Canada is a pretty strong one. You can't blame environmental rules. The cost difference between Canada and the United States has to be entirely on health care.

Mr. Gettelfinger, you wanted to say something else?

Mr. GETTELFINGER. Yes, sir. As far as our commitment to each other, the company to the Union, the Union to the company, we put together what we referred to as a National Health Care Reform Institute to study the entire issue.

The CHAIRMAN. I appreciate that. And I think—you know, I have to say I wish—among the mistakes the auto companies made was in 1993 when there was an effort by President Clinton to do something about health care, you didn't help him. And now you are reaping some of that. But it does show the importance of a rational national health care plan going forward. Reducing the nexus between employment and health care is good social policy, it is good economic policy, and it would have particular relevance here.

I just want to add one last point. I know one of my colleagues will do this. One of the problems you face in getting votes, certainly on the Democratic side, is the fact that you are now suing a lot of States that are represented here over greenhouse emissions. And I have to tell you that that is a serious obstacle. We are being asked by some attorneys general—I will put that letter into the record—not to go forward while you are suing the States again, some of which are represented here, over the question of greenhouse gas emissions. And that is something that you are going to have to confront, and I know it is going to be raised later on.

The gentleman from South Carolina, Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman.

Gentlemen, thank you for coming today. And I certainly don't want to get into a health care debate today because there are plen-

ty of other issues, but I think we are being extremely short-sighted to realize that taking health care costs off your role, somebody has to pay for that, somebody has to pay additional taxes. And if you don't think you are going to pay additional taxes—and me—I think it is a fallacy.

The one question I want to ask first, driving around my district, talking to my folks, the one question they say is why now; why are we deciding today that we are going to restructure, that we are going to cut our labor costs, that we are going to shrink down the size of our lines? I mean, you guys are the “bestest” and the brightest, so to speak. You have men and women who are experts in every field. Why today are you realizing that your competitors are getting an advantage on you, and all of a sudden we have to restructure? You should have seen this coming for years. And I know you have. And all of a sudden you are coming to the United States Congress, which is not our job, to tell you how to restructure. But you are doing it. I mean, why now? Why not 10 years ago? Why not 20 years ago? Please, somebody.

Mr. WAGONER. Yes. We aren't just starting this now. We have reduced—for example, over the last 3 years, we reduced our cost base against a base of \$40 billion of fixed costs, we reduced it to \$30 billion working a lot actually with the UAW. So we have been working on this.

I think now what is different today are two things: Automotive demand, the trend had been running kind of 17 million units a year for an average of about the last decade, And now they have fallen to, in recent months, under 10 million or 11 million units. So there is a radical fall-off in demand at a time, frankly, when, at least for General Motors, our balance sheet is weak in part because of the massive expenditures we made in the past on health care and pensions.

And so then you say why are we doing the additional restructuring now? Because we have to face the reality that because of the state of the credit markets and the U.S. economy, we have to structure the business not to be highly profitable at 17- or 18 million units, but now to be highly profitable at 13 million units. And to do that, frankly, we are having to take additional and painful steps.

Mr. BARRETT. I understand. But please, you are not the Federal Government. You don't think in 2-year terms. You can move faster. And if you are going to be competitive, if this thing is going to work, if it happens, you have to be more competitive.

Another question, Mr. Wagoner. I hate to pick on you. You were talking about legacy costs, and when you move into a new market, you get rid of a lot of the legacy costs. What makes you think that you can't cut some of the legacy costs faster under a bankruptcy type of format rather than government restructuring, which you are basically asking for right now?

Mr. WAGONER. First of all, the pension legacy costs we have paid for, that is done. Our pension plans are essentially fully funded. So there is no advantage or disadvantage from a bankruptcy there.

Second of all, as Mr. Gettelfinger pointed out in his comments to the chairman's question, the post-retiree health care benefits, we have reached an agreement where those will be the responsibility

of this trust in 2010. So we will also no longer have those in front of us. We do have some payments due to that trust which Mr. Gettlefinger has agreed we can stretch out over a period of time. We need to sit down and discuss those. But we don't really think from that perspective a bankruptcy helps a lot on those issues. And meanwhile, it is going to cream our revenues. And if our revenues go down like this, we will never be able to cut costs enough to get ahead of that.

Mr. BARRETT. Mr. Nardelli, I know that you guys have brought a plan forward, and you are asking Congress for certain things. Are you asking for things in this plan that you wouldn't ask for, having brought it to Congress, if that make sense? Are you bringing this plan and asking for things to appease Congress that you wouldn't normally ask for in a regular plan if you were going to a financier?

Mr. NARDELLI. No. I think if you look at the plan that we have submitted, and it is a 120-page document, what we are asking for is a \$7 billion bridge loan. If I could just build off Mr. Wagoner. We started in August when we became independent from Daimler, we started on this massive restructuring. And I think the reality is two things really hit us. One is 17 million to 10.5—

Mr. BARRETT. Let me cut you off because my time—does it give you enough flexibility? Does this plan with the government mandates on CAFE standards and things like this, does it give you the flexibility that you need to turn your companies around, to make them profitable, to compete with your competitors?

Mr. NARDELLI. I believe it does.

The CHAIRMAN. Time has expired. Any further answers will have to come in writing.

The gentleman from Pennsylvania is now recognized for 5 minutes.

Mr. KANJORSKI. Thank you, Mr. Chairman.

Gentlemen, let me ask you a few questions. One, you were examined by Ms. Brown-Waite of Florida just recently. And a masterful obfuscation. I think she was asking a very simple question, and I have the same question. Why don't your equity owners provide the equity necessary for your company to go on? I do not want to hear whether there are pension funds or they have obligations. Isn't the truth of the matter that they do not feel that the presently structured auto industry of the United States is survivable in its present form?

Mr. NARDELLI. Sir, they never conveyed that to me.

Mr. KANJORSKI. Then why won't they give you any money?

Mr. NARDELLI. I assume they have no access to additional funds.

Mr. KANJORSKI. I think she indicated they had \$20 billion on hand, \$24 billion. That is a considerable amount of money.

Mr. NARDELLI. I don't know if that is in the form of cash or in the form of assets, sir.

Mr. KANJORSKI. But the taxpayers of the United States have that money on hand, and we should provide it as their representatives much sooner than your equity owners?

Mr. NARDELLI. I am only suggesting that I have tried mightily to get funds to keep Chrysler alive.

Mr. KANJORSKI. I listened intently to the Senate examination yesterday, and I thought Senator Corker was excellent. And he ba-

sically told all of these gentlemen that from his business perspective as a businessman—he personally is a very successful businessman. He looked at your balance sheets, and he said they just don't work; you can't retire your present debt on your plans over the next several years unless there is a restructuring, unless there is haircuts taken by your creditors, etc., etc.

Now, I am not familiar with all of the facts of those things, but I am reasonably willing to assume that he has looked at it. And I think most of you agree that something has to be done. This balance sheet doesn't make sense to a continuing, successful, viable business. If that is the case, it seems to me this is the time.

Look, labor stepped forward. They have indicated they are ready to step forward again. Why can't the creditors step forward? Why can't the suppliers step forward? Why can't the dealers step forward? Why can't management step forward? Instead of a dollar a year, I think you ought to take no greater salary than any of the successful Japanese companies for as long as you are indebted to the United States. When you are out, I don't care what you do, but until that time, you shouldn't be getting 20 times the salary of a successful Japanese automotive executive. It is ridiculous.

Now, those things are minor and can be solved. It just seems to me—and my frustration is, hey, we are running out of time. I don't know if you sense it as I do, but you all are telling us you are within 25 days of bankruptcy potentially. This is not a time for us to horse around. What do we have to do? A very complicated agreement. Not that complicated that it can't be done in a reasonable period of a month or 2 months, but too complicated to put together and get done before the end of this month. So we are looking at the precipice. You are going to go over if we don't do something.

It seems to me yesterday there was agreement in the Senate if General Motors were able to get an advance, a bridge-bridge loan of \$4 billion, if Chrysler were able to get a bridge-bridge loan of \$4 billion, and Ford can manage itself until March 31st, we can get a hiatus here until March 31st for the new Congress and the new President to act; is that correct?

Mr. NARDELLI. It is correct for Chrysler.

Mr. WAGONER. For General Motors, the number we have indicated that we need up to \$4 billion at the end of this month. Also at the end of January. And so the total amount that we would need as we see it today through the end of March would be up to \$10 billion.

Mr. KANJORSKI. Up to \$10 billion?

Mr. WAGONER. Yes, sir. But we do have collateral that we could offer against that.

Mr. KANJORSKI. And Ford?

Mr. MULALLY. We believe we have sufficient liquidity. We do not need any money.

Mr. KANJORSKI. So you need an adjustment somewhere between \$14 billion and downward, perhaps as low as \$10 billion, to give us the 90 days we need as a Congress, both House and Senate and the new Administration, to put something together; is that agreed?

Mr. NARDELLI. Yes.

Mr. WAGONER. Can I make one more comment, sir? It is important. We were hoping to use the 90-day period to do exactly what

you suggested, which is to work with debt holders, to work with UAW, to use that time period—

Mr. KANJORSKI. Why aren't we doing that? Why are we all sitting around talking about a business plan here and a business plan there and time is running out? And it almost looks to me like you hope that with that target coming down on us, you are going to get us to do something and just throw the money out there and say, go ahead, do with it as you will.

I tell you this: I do not sense the Congress' appetite right now to do that. I think you are skating on extremely thin ice. And I happen to be a friend of your industry and your intent to get this thing straightened out. I think what you have to do is come up with a plan for success. That means the haircuts have to be taken, the negotiations have to be—we have to know where we are going. I would urge you to do that.

The CHAIRMAN. The gentleman from Georgia, Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman.

I want to just make a comment about your bringing up the issue of health care and the fact that it would reduce costs significantly. I am reminded of the comment by P.J. O'Rourke, who said that if you think health care is expensive now, just wait until it is free, as the gentleman from South Carolina mentioned. Somebody will be paying for it. And whether or not it is in the program that you all have identified or elsewhere, it will certainly be paid for.

Mr. Gettelfinger, you have been saluted for concessions that the unions have made, and I want to join the individuals who are commending you for those concessions. I want to address the issue of the jobs bank. It seems to me that the suspension of the jobs bank, which, as I understand, is a program that pays individuals who have been laid off for an extended period of time a significant amount of their income—the suspension of that program is an admission that affects the financial viability of the company. To me it seems that way. If that is the case, wouldn't it be appropriate to suspend that program definitely, end it definitely, as opposed to just suspend it for a finite period of time?

Mr. GETTELFINGER. Yes, sir. What we are doing is, we are looking at that. But I would just like to point out to you that some of the competitors, the foreign brand competitors, pay 100 percent when their workers are off. But we have set that aside. We recognize that it really—

Mr. PRICE. So you are open to ending the program?

Mr. GETTELFINGER. What we are doing right now, sir, we have taken action on Wednesday of this week to suspend the jobs bank program, to immediately enter into discussions with the companies and work out the mechanics of the program. But also know that we have a very few number of people in there. We have a number of people who would be coming in there. So we want to enter into discussions with the company in a way as humanly possible in that program without a lot—

Mr. PRICE. I am looking forward to positive results from that. It is somewhat humiliating, I would suggest, to have you all sitting here and taking advice about how to run your business from Members of Congress, many of whom have great expertise in certain

areas, but I would suggest isn't necessarily running a large global company.

My good friend from Illinois talked about appropriate recommendations regarding marketing, and you ought to take some of those into advice, I am sure. If you get this money, however, there are all sorts of folks who are working in other companies, building automobiles in the United States. Those individuals pay taxes. If you get this money, some of their tax money will go to compete against the company for which they work. Why is that fair?

Mr. WAGONER. If I could just comment. In many cases, those companies are seeking support from their own governments right now in their home countries for funding. First of all, as you know, this is being done almost globally due to the crisis in the industry. Second of all, many of those companies benefited from very extensive incentives to locate plants in States, and so their costs were reduced from the beginning. And it is certainly true, I suspect, if we were building all new plants, we could seek similar support. But we have such a huge existing manufacturing base, that frequently the kind of support you get to retool an existing plant would understandably be less than paying for a whole new plant.

Mr. PRICE. You understand the questions that we get at home, though? Why should my tax money go for this activity? Have any of the three of you looked at how many billions of dollars your companies might be able to save with specific decreases in the three biggest cost drivers, taxation and regulation, liability costs that you have, and made proposals that might result in significant decrease in the cost of doing business?

Mr. NARDELLI. Sir, from our standpoint, unfortunately, we have not been profitable, so there is no Federal tax suggestion that—

Mr. PRICE. Your liability and regulatory costs aren't anything?

Mr. NARDELLI. No, they are.

Mr. PRICE. Have you looked at what those costs are and how we might be able to assist in that area?

Mr. NARDELLI. We have not explored significant opportunities on how to get those down.

Mr. MULALLY. Nothing there, except that I think that what we did last year during the 2007 Energy Independence and Security Act to come together, what we really were going to do about fuel economy was a very important step. We have one standard.

Mr. PRICE. GM, taxation, liability, regulatory costs?

Mr. WAGONER. Same position on taxation. We don't currently pay taxes because we have a tax loss carry-forward position that is huge. Regulatory costs—and obviously we have, you know, less than we used to, but significant costs related to—

Mr. PRICE. My time is about to run out. I would encourage you to—

Mr. WAGONER. We can get you a number.

The CHAIRMAN. Go ahead and finish.

Mr. PRICE. I would just encourage you to put a sharp pencil to those issues.

The CHAIRMAN. The gentlewoman from California.

Ms. WATERS. Thank you very much. Again, I would like to thank you, Mr. Chairman, for this opportunity to try and figure out what

the situation is with our automobile manufacturers and see what our responsibility may or may not be.

As you know, I have focused on dealerships, and small ones, because I believe that many of these small, independently owned dealerships are anchored in many communities that provide support, but not profit. They create jobs and stability and development. I have not seen the kind of discussion about assistance for these dealerships that would make me want to be very anxious about supporting a rescue plan.

Of course, let me say to UAW, we are very concerned about the workers, and we believe that if we are able to move to the point of a rescue plan, that we would be able to save many families who depend on these companies that they have worked with for many years, and that those families are key to the stability of our community. So we are concerned about that.

But I don't see any discussion about how you plan to—I understand when you say you are going to do consolidation. You don't explain it thoroughly, but to me it looks as if consolidation means that the big dealerships with access to capital and multiple locations will be able to buy up the small independent dealers and just put them out of business, and that bothers me. I don't see the small dealers having access to capital from our banks and financial institutions or your financial arms.

Chrysler, for example, when you were purchased by Cerberus, it looks as if they purchased, according to an article, for a very low price of \$7.4 billion. Only \$2.2 billion of that purchase price was for Chrysler's carmaking operations. The other \$5.2 billion or so bought Chrysler Financial Services, which is doing very well. But there is no commitment that I see from that financial services operation to give support to those small dealers who have been profitable, operated their businesses good in the past, and only got into trouble with this economic turndown. Chrysler, you have money to help these dealers. What do you plan on doing for these small, independent dealers who are the anchors in these communities?

Mr. NARDELLI. The current financial structure of Chrysler Financial is the arm that is providing the capital support for the dealers. That is the current funds flow. It does not come out of the car company. It does come out of the financial arm. I don't know the exact amount.

Ms. WATERS. But they are not making any money available to these small dealers now. As a matter of fact, they are calling in some of the commitments that were made in asking people to pay off these loans. What do you plan on doing—you are here to get help. What are you going to do to help them?

Mr. NARDELLI. You are exactly right. Due to the capacity limitations on Chrysler Financial because they have not been able to access the window, in fact they cannot make additional funds available, they have certain tripwires that if they cross over, that they will be in violation of some of their governing documents. So that is to our earlier conversation today, it is critically important that Chrysler Financial gets access to the TARP funds both to improve liquidity and capacity for our dealers and our customers.

Ms. WATERS. But it seems to me that Cerberus is doing pretty well. They basically own Chrysler. They have done things like—

well, literally private equity fund that purchased Mervyn's and stripped it of all of its real estate and made a lot of money on it. The financial arm is doing very, very well. Why can't that be used for support for these small dealers rather than saying just sell out or get out?

Mr. NARDELLI. I don't—to be honest with you, I don't know the extent of the financial funds available at the Cerberus or parent level. I know that, again, they have investment funds that have certain criteria relative to how those funds might be used and where they are invested. So I really can't give you a more complete answer, but I would be happy to try to get that for you.

Ms. WATERS. Is there a commitment by any of you to give support to these small, independent dealerships that include a lot of minority dealerships that are going to close down?

Mr. MULALLY. Absolutely. In Ford's case, as you well know, we have the Ford Motor Credit Corporation. We have provided the financing support for all of the dealerships, 77 percent of them. And we are absolutely committed to our small dealerships as well as the larger ones. The most important thing we can do right now is get them the credit. That is why we are encouraging the Fed to approve this—and this medium-term asset-backed commercial paper.

The CHAIRMAN. The others will have to answer in writing.

The gentlewoman from Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman.

In my opening statement, I asked the question about what are the reasons that people are not buying the cars. And I just wondered since most of us sitting up here have been doing surveys—or a poll, as we would call them, during the past year, I wondered if any of your companies do surveys annually or whatever to determine what the customer thinks.

Mr. WAGONER. Continually we do surveys.

Mrs. BIGGERT. So you know the answers why people are not buying your cars?

Mr. WAGONER. Well, I don't know. But, yes, basically what is going on now is I think the macro issues are customer sentiment is very—consumers are concerned about housing and their jobs and stuff, so they are not disposed to buy things they don't have to. Second of all, we talked so much about credit availability I think is a huge issue. And then I think just concerns about the economy are the big issues that I would say.

Mrs. BIGGERT. If I might return then to the other issue of the ILCs, which I had mentioned also and was brought up several times. And then Mr. Manzullo touched on the fact that the community banks, the credit unions, and the local branches of national banks are really standing in the wings waiting to help to—and provide finances. How exactly are you working with the existing financial institutions to ramp up financing for consumers?

Mr. NARDELLI. I would like the opportunity to answer because I didn't get a chance. We got approval from Chrysler Financial to go out and test that market. We gave half of our country the opportunity to with some private—with some publicly traded companies. And in November, we consider half of the volume, 80,000 plus units that we sold in November, 573 were supported by financing outside of Chrysler Finance.

Mrs. BIGGERT. According to the Wall Street Journal in an article published Wednesday—I believe Wednesday afternoon—they said that, “The auto firms don’t appear to have collateral that would meet the Fed’s lending criteria.” Is this true?

Mr. WAGONER. We have, as I have mentioned earlier, significant collateral that is undesignated right now. I am not familiar with the specifics of the criteria of the Fed. I can get back to you on that.

Mrs. BIGGERT. All right. Thank you.

Would anybody else like to add anything to that? Okay. Then if Ford and Chrysler were approved to be ILCs tomorrow, which would technically make them eligible to apply for TARP funding, do you think you would get the TARP funding. And, GMAC, if you—if you are a bank holding—would the Fed give you a loan?

Mr. NARDELLI. We certainly would hope so; that if we received approval and got access to the window, as I mentioned earlier, we are looking for \$1.6 billion immediately and another \$2 billion for wholesale and retail, which we would be able then to provide to our dealerships to try to get some more volume into our business.

Mrs. BIGGERT. In your plan submitted to Congress, you mentioned the introduction of 20-plus new models by 2012. And each of you also highlights the significant investments the overall industry has made in R&D. With this in mind, have you identified specific ways you will shorten the car concept-to-dealer timeline in order to meet long-term CAFE increases and customer credit? And I am worried about this because it seems like the transplants have really been able to bring to market some of their ideas a lot faster than you all have.

Mr. WAGONER. I would observe—I think that is a comment that for some of them—not all of them, by the way, but some of them—might have been true 5 or 10 years ago. Generally today, I think all of us use the same kind of computer-based engineering design systems so we can move through much more quickly than we used to. And I think the competitive band is very tight right now.

Mrs. BIGGERT. Would that be like 2½ to 4 years?

Mr. WAGONER. Right. And it depends on—you know, if it is an all new vehicle from the ground up, it is going to take longer. If it is a modification of an existing platform, it could be at the shorter end of the timeframe.

Mrs. BIGGERT. Thank you.

I yield back.

The CHAIRMAN. The gentlewoman from New York.

Mrs. MALONEY. Thank you, Mr. Chairman. Mr. Chairman, you raised a very relevant point earlier when you mentioned the efforts by our guests to block laws that we have adopted in our States. In fact, 16 States have adopted or planned to adopt laws to lower greenhouse gas emission standards. And my basic question to you is, why in the world should my constituents or taxpayers in New York State or any State provide \$38 billion in loans for your companies if you will continue to attempt to undo laws that we have adopted in our States? Wouldn’t that be equivalent to giving you money to sue us?

So I would like to ask each CEO, will you pledge today to cease all legal and lobbying efforts to block the California greenhouse gas

standards for cars that have been adopted in New York and many other States, and tell us, are you going to use this money to sue us, or do you pledge today that you will block your efforts to lobby and sue States that have adopted a stricter antipollution standards?

Mr. NARDELLI. Let me try to go first. It is not our intent to use the \$7 billion, if we are fortunate enough to get a favorable decision, to sue those States. I would also say that it adds a level of complexity and cost at a time when we are trying to get simplification. To be able to produce cars unique to a State or unique to a city in some cases would add tremendous complexity in manufacturing and in our technology.

Mrs. MALONEY. Thank you.

Mr. Wagoner?

Mr. WAGONER. Yes. I would just add that we have been of a view and continue to have a view that a single national standard as aggressive as it would be is a far more efficient way to reduce greenhouse gas emissions and reduce imported oil, so that remains our strong preference.

Mrs. MALONEY. And the California standard being adopted by 16 States is moving toward a national standard.

Mr. MULALLY. We agree with one national standard.

Mrs. MALONEY. Secondly, my constituents are asking about your efficiency, your fuel efficiency. Many countries have far more fuel-efficient cars, and they want to know why you can't meet the standards of other countries. We can't export if we are not more fuel-efficient. I noticed in your plans you have talked about your standard and your goals of becoming more fuel-efficient, and I would like to hear the year and specifically how many miles per gallon you propose to do by 2015.

And secondly, I would like to hear your comments on electric cars. I know that GM has talked about having one on the road in 2010. And Ford, in your plan you talked about moving towards electric cars.

But before you answer, I would like to request if the chairman would allow me to place in the record—

The CHAIRMAN. Without objection.

Mrs. MALONEY. —a report that was issued earlier at a Joint Economic Committee meeting which I chaired on the unemployment numbers for this month. They were the worst in 124 years. We lost over 533,000 jobs, and the Commissioners of the Bureau of Labor of Statistics made a very compelling point for a bridge loan to the auto industry, indicating that 2½ to 3 million American jobs are directly or indirectly tied to this industry. Through November, almost 20 percent of all job losses in 2008 were directly associated with the auto industry; 13,000 auto jobs lost this month, 135,000 this year; 115,000 more jobs lost this year with auto dealers, and 240,000 workers, companies are directly employed now to the auto industry.

I would like to place in the record the full report, but I would like to hear your goals and your benchmarks. What do you propose to achieve in fuel efficiency and also your comments on electric cars and your plans to move there and what would that mean to our economy, our fuel efficiency, our jobs in America.

Mr. WAGONER. Just in the interest of time, our report lays out our fuel economy plans, but they involve significant increases over the next 4 years and I would be glad to share with you the 2014 numbers. I don't have them right with me. It shows a dramatic improvement, and I think I can just say we share your passion for developing electric vehicles. We think that is going to be the breakthrough for the future.

The CHAIRMAN. The other responses have to be in writing because the time has expired. I said we would end at 12:30. I am going to ask for your indulgence. We have one member on this committee from Michigan, and if we go another three members, we can reach him. If members are very good about keeping to the time, if that is okay, I am going to go ahead so that we can reach our colleague from Michigan. Now, it is the gentlewoman from West Virginia.

Mrs. CAPITO. Thank you, Mr. Chairman. I want to thank the panelists, too, for coming before us. I have a question for Mr. Wagoner. In your proposal brought forward, you have asked for \$4 billion to take you to the end of the month, \$4 billion to take you to the end of January. Just briefly, can you give me a snapshot of what is \$4 billion between now and December 31st going to be used for? You recommend an oversight board as well when you and I both know that the creation and sustainability of an oversight board in 26 days is pretty much impossible. I just want to know what is \$4 billion getting you, and then what is it going to get you in January? Is it like paying your mortgage every month or something?

Mr. WAGONER. No. Basically the funding request up to the end of the month of up to \$4 billion is what we think we need to be able to make all of the significant annual monthly payments that we normally make at the beginning of the following month.

Mrs. CAPITO. So payroll and production costs?

Mr. WAGONER. Right. And suppliers, etc. The reason the number is so high is that production has been slashed over the last weeks because of dealers' inability to finance wholesale units or to get wholesale financing.

Mrs. CAPITO. Is it the same?

Mr. NARDELLI. Yes. For us, we have \$11.6 billion in expenses. \$8 billion is for suppliers, \$1.2 billion for vendors, \$900 million on wages, healthcare is \$500 million, and capital expenditures are \$500 million, so we have \$11.6 billion of distribution during the quarter. And so the \$4 billion of inflow, plus a revenue inflow, would allow us to have a minimum level at the end of the first quarter.

Mrs. CAPITO. So you are anticipating that by March 1st, the sales will back up and the ship will get righted at least to a certain extent. Is that why it goes down in March?

Mr. NARDELLI. By March 31st, but we are assuming a very, very depressed January in our analysis. The first quarter is typically seasonably low. And we believe January will be even more extreme relative to our overall manufacturing output as we try to get dealer inventory back down to an acceptable level. When I took over here, there were 600,000 units in the field. We got it down to 400,000.

We would like to get it lower to reduce the floor planning cost for our dealers.

Mrs. CAPITO. And another question I had was obviously the dealers have made a push to all of us, and I congratulate them for putting really the human face of a small business and the amount of workers and the community involvement that they all have in our States and in our districts, and I think that really helps. I was actually, just to add a little levity to this, I was thinking about, you know, we think about our cars and our automobiles, and I started thinking about all the cars that I had, and I remembered all the names that we had. You know, we had Leroy and Big Blue and Crasher and Goldie, and then the one my dad drove which was an old Chrysler wagon and called that the "chick magnet." So I mean, everybody has a name or an attachment, sorry, Mr. Chairman, for their automobile.

The CHAIRMAN. It is just not something I would ever want to drive.

Mrs. CAPITO. Anyway, getting back to the dealers, they are very fearful of the bankruptcy option. They feel that the confidence that is lacking in the consumer right now is going to become exasperated by any kind of bankruptcy, whether it is preplanned or whatever. And I think what is really killing us right now is just this uncertainty. We don't know what direction it is going to go. It is almost like tell me what the pain is going to be and let me move forward. And so I understand that in a context of putting it within a time limit is where you all must be feeling this.

Is that sort of the general feeling that you have, we just have to find an end here so we can rebuild? I would also like just, and I know I have taken probably all of my time, but the bankruptcy option, if you could just go back through that one other time. I know Mr. Gettelfinger did a nice job on that.

Mr. NARDELLI. The quick answer to one is this morning's survey that was reported; 57 percent of the consumers surveyed would not buy a vehicle from a company that they anticipate is going into bankruptcy.

Mrs. CAPITO. Well, I mean, I have already had two people tell me in the last week they had options that went the other direction because of the fear of bankruptcy. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from North Carolina.

Mr. WATT. Thank you, Mr. Chairman. I thought I was about to get cut off, so I appreciate you extending the time. I, in my opening statement, encouraged the members to go out and look at your new generation cars, which I did earlier today. But one of the concerns I have is that none of those cars are yet on the market. Is there anything that can be done to speed up the process of getting those cars on the market? And is there anything that can be done, I asked this question out there to the people who were out with the cars this morning, to create a bridge for people who are buying these first new generation cars, so that when the second and third and fourth generation more efficient, more cost effective comes on the market, those people don't get stuck? Because I think that is really stopping a lot of people from buying cars now, because they think next year there is going to be a more efficient car on the mar-

ket. Is there anything that can be done to speed up and create that bridge for people who are willing to take the front end risk?

Mr. WAGONER. I would like to comment that we do have a lot of hybrids and flex fuel vehicles on the road today. But we do hope that the next generations will get better and at lower costs. I know the President-Elect has expressed a lot of interest in energy policy. What would really help to move to the next generations faster are closer alignment between government policy on energy and the expectations and the technologies that we work on in the auto sector, because the issue is getting scale to battery manufacture, fuel cell infrastructure. Pick your technology. The issue is kind of breaking through the traditional oil-based infrastructure that we have into one of these new infrastructures. By the way, that is one of the reasons electricity makes sense, because most everybody—

Mr. WATT. Well, we have a Volt that is sitting out there now, that won't be on the market until 2012. Is there anything to do—or 2010, I guess. Is there anything that can be done to advance that Volt to the point where it can be sold next year?

Mr. WAGONER. We have, I checked the other day, 1,200 engineers and designers and research people working on trying to get that car to market as soon as possible. As this whole concept of developing this battery technology and making it robust for automotive use, we are hustling like crazy to get it to market in 2010. But I do think your point is relevant. What can we do to ramp up the production faster and get to the next generation faster. And this is where I think, for example—

Mr. WATT. And what can you do to protect those who are willing to take the first generation as you evolve to the next generation?

Mr. WAGONER. We are going to have to give them things like extended warranties that are transferrable so they don't have a burden of trying out the new technology. And I think beyond that we have a very long waiting list for the Volt right now, so we have a lot of people who want to buy it.

Mr. WATT. That is good news.

Mr. NARDELLI. I think one specific answer is we went to Denso, which is one of the cooperative companies owned by Toyota who does have advance battery technology, but as you might guess, no capacity. And so back to the discussion we had earlier this morning, the faster we can get a cooperative effort between national development, government and the manufacturers, from our point of view, the battery is probably the single biggest limiting factor in us being able to get those vehicles on the road.

Mr. WATT. Let me try to get another question in to Mr. Gettelfinger in particular. I do talk radio shows sporadically and Al and Stacey are always after me at WBT. They are concerned that you are cutting down employees as part of this transition rather than employ more people. And I say, well, what about the people you are saving the jobs for; go through that equation again for Al and Stacey at WBT in Charlotte.

Mr. GETTELFINGER. Well, unfortunately, there has been a lot of restructuring taking place in the industry. If you go back in the past, while people didn't think restructuring was going on, it really was. In 1979, I believe it was General Motors had 460,000 UAW members. Today they have had 63,000 on the rolls. Since Sep-

tember of 2005 through September of 2008, General Motors has reduced 47,000 members, UAW workers. At Ford, that number is through 2005 up to this point it is 37,000, I believe.

Mr. WATT. Give me that in writing. My time has run out and I have to yield back.

Mr. GETTELFINGER. The point is there has been major restructuring going on in the industry. And it has been extremely painful for our membership, for the company's employees, for their families, and for the communities and States where they live.

The CHAIRMAN. Mr. Gettelfinger, I think if I heard the question correctly, what would also be requested would be why this is in the interest of the workers.

Mr. WATT. That is the part of it that people don't understand.

The CHAIRMAN. Why those arguments don't figure up. So that is what I think the gentleman would like in writing.

Mr. WATT. Give me something in writing so I can send it to Al and Stacey.

Mr. GETTELFINGER. Okay. Thank you.

The CHAIRMAN. The last question comes from the gentleman from Michigan.

Mr. MCCOTTER. Thank you, Mr. Chairman. I appreciate your indulgence. I have a question. But I would like to go back to what I laid out as a potential proposition for a compromised bill that could be passed by both Chambers and signed into law by the President. Because it appears we are really having two conversations within Congress. The first conversation is whether or not there should be a bridge loan to the auto industry. And that is predominantly what you are encountering in front of both the Senate and in front of the House, are Members grappling with the question of whether a bridge loan to the American auto industry is a good idea.

The second step, which is one that we are going to have to take, I hope relatively quickly, to facilitate that process is what should such a bridge loan look like, starting with where does the money come from. I have to point out at this juncture that one of the misconceptions in the public's mind is that we are talking about a new appropriation of new money. That is not what the discussion that I have heard has been about. We are talking about redirecting already appropriated money.

So for those, especially on my side of the aisle who say we are going to save taxpayers \$25 billion or \$34 billion by voting against or denying this bridge loan they are mistaken, because the money is already targeted and appropriated to be spent elsewhere. The money that we are talking about for a bridge loan is going to come from one or both of the following places: It is going to come from TARP funds, which were going to go to Wall Street firms if they are not used for the bridge loan; or they are going to come from DOE energy innovation loans which are going to be expended as well if not applied to the bridge loan. Which is why I continue to go back to a request for people to seriously consider the Solomonic approach of taking half of the bridge loan from the TARP funds and half of the bridge loan from the DOE funds.

The logic behind this is quite simple. The TARP funds are there to help unfreeze the credit market. Mr. Paulson in front of this

committee the day before you first testified said that the underlying problem in the credit market is the foreclosure crisis and that we must do everything we can to end the foreclosure crisis. That will unfreeze the credit markets. So my first question, and I will do them one at a time, preferably in a series and let you answer. The first question is if the bridge loan is not approved, you will face a bankruptcy proceeding and will not thousands of your employees potentially face foreclosures on the homes they are currently in and that would undermine the very logic behind Mr. Paulson's TARP plan.

The second question is, the DOE funds are there to spur energy innovations and green technologies. As we all know, the auto industries and the American industries have been leaders in these innovations, especially for your research and development funding. That strikes me as a reasonable use of the DOE energy funds, is to preserve what you are already doing by incorporating it into a bridge loan. Money is fungible. What would happen if the bridge loan is not approved and you have to face bankruptcy, what happens to the research and development you are currently engaged in and how far will that be set back.

The final question is regarding taxpayer protections, and it is for Mr. Gettelfinger. I believe that what you said about the incoming Administration and being the stakeholders to the table to have discussions and have a process in place to bring back to Congress not a bankruptcy proceeding, but something that could be called an accelerated restructuring map where all the stakeholders come up with an idea, show the viability and come to Congress not merely for money, if at all, but what we can legislatively do to help facilitate the industry's restructuring. I think that is something that this committee, Mr. Chairman, if legislation is pursued, should try to facilitate within that legislation to show our commitment to it. Because that, in the long run, is what is going to help the restructuring process after the bridge loan is necessitated and hopefully approved. And I would like you to just talk briefly more about your ideas in that regard because I think it is a very timely idea, and it goes to the heart of taxpayer protections in the bridge loan. Those are my thoughts.

The CHAIRMAN. We will extend the time a little bit for that question and that will wrap it up. So if each of you could take about 30 to 45 seconds on this we can go.

Mr. WAGONER. I will just start. There were two questions for us, one asked if bankruptcy would impact employees' abilities to pay mortgages. I feel like that is an absolute certainty. And it would go far beyond our employees; it would also be dealer employees and supplier employees. So I think your thesis is right. You ask what the impact of bankruptcy would be on our green technology, and it would be a horrible waste because we have committed a huge amount of money to develop electric cars, fuel cells, flex fuel. And it would be the United States throwing away a massive investment, and in some cases a leadership position globally which would seem to be a terrible loss.

Mr. NARDELLI. Sir, for us, if we were denied the funds, it certainly would push us in that direction and possibly even worse, to liquidation. There are 1 million people in our calculation counting

on Chrysler, point one, who certainly would be unemployed and therefore run the risk of not being able to pay their mortgages. Second, in this plan, there is about \$12.8 billion, including some of the energy funds that you reference. But again, it would be funds not expended. And therefore payments not made either to engineers, to scientists or to people who make tools and dies and capital for the future of our energy independence.

Mr. MULALLY. Even though we are not requesting a bridge loan, it is so important, this industry so important, that is why we have joined our colleagues. Because if one of us goes in, it has the potential, as we have talked about, to take all of us in. And what that would mean to the economy would be tremendous. Then, instead of being part of the solution to get through the worst economic crisis all of us have been in across this great country, we would be part of the problem.

Mr. GETTELFINGER. Then on the question of the stakeholders coming to the table outside of bankruptcy with some kind of oversight, whether it be a trustee or other named governance, that all the stakeholders come to make sure that we share in the sacrifice that has to be made to make these companies viable.

The CHAIRMAN. The panel is dismissed with our thanks, and we will ask them to leave quickly. People who want to talk to them can talk to them outside. We will get the new panel in. Please leave right now. Go.

We will now proceed with the second panel. We will begin with the Acting Comptroller General, Mr. Dodaro. I appreciate the fact that you are not in the best of physical health right now, and I thank you for accommodating us. The Comptroller General from the Government Accountability Office.

**STATEMENT OF THE HONORABLE GENE DODARO, ACTING
COMPTROLLER GENERAL, U.S. GOVERNMENT ACCOUNT-
ABILITY OFFICE**

Mr. DODARO. Thank you very much, Mr. Chairman. I am pleased to be here today to assist your deliberations and all the members of the committee's deliberations on the automakers' request for Federal assistance. GAO has been involved in Federal rescue efforts and bailouts dating back to the 1970's. And over this period of time, we have developed three basic principles that we think can help guide congressional deliberations in this particular matter. First, is clearly identifying the problem at hand. Clearly, here we have a confluence of short-term liquidity issues as well as fundamental restructuring of the industry against the backdrop of a very uncertain economic climate.

The second fundamental principle is determining the national interest and whether or not it is in the national interest to intervene with Federal assistance. Once that policy decision is made, there needs to be a clear articulation of the government's goals and objectives and an exit strategy so that the businesses can be returned to their normal status as soon as possible. The third fundamental principle is protecting the government's and the taxpayers' interest. Here concessions are important. Concessions in this instance from management, labor, creditors, suppliers, dealers. There needs to be collateral. The Federal Government should be the first lien stake-

holder in terms of recouping the money in the event of a particular problem. There also needs to be compensation for the risk through warrants or other things so that if there is an upside to the company's recovery, the Federal Government can then recoup not only its initial investment, but benefit from the risk that it has been taking.

There needs to be controls over management. In this case, making sure that the Federal interests are protected. Now, there are two main points I would like to make here, and then I would be happy at the appropriate time to answer questions. First, it is critically important from my standpoint that the Congress consider having a strong independent board overseeing and protecting the Federal Government's interest in this matter. The board needs to have the right leadership, the experience, and the resources to be able to look at the operating plans of the companies, determine when reimbursements should be made, overseeing the use of the money and anticipating future events that might be occurring both in the general economic situation, as well as with these companies themselves, so that the Federal Government is not put, and the Congress in this case, in a position of making future immediate decisions that are made over time.

The control board function and independent board has worked well in the past both with the Chrysler loan guarantee effort, and in our opinion also worked well most recently with the airline stabilization board which was set up to make loans to the airlines following September 11th.

Lastly, there is a real opportunity here, we believe, to look at this both from an immediate issue, as well as a long-term issue given the fact that the companies are presenting the more immediate needs to the Congress so that in our opinion, there could be an approach made here that is a two-pronged approach dealing with the immediate situation that they have and then dealing and protecting the government's interest not only there, but setting up a longer term approach to this, particularly as the restructuring efforts would proceed if the Federal Government determines to intervene in this matter.

So that concludes my opening summary. I also want to underscore the fact that GAO stands ready to help the Congress in making this important and very difficult decision. Thank you.

[The prepared statement of Mr. Dodaro can be found on page 136 of the appendix.]

Ms. WATERS. [presiding] Thank you very much.

Mr. Altman.

STATEMENT OF EDWARD ALTMAN, MAX L. HEINE PROFESSOR OF FINANCE, LEONARD N. STERN SCHOOL OF BUSINESS, NEW YORK UNIVERSITY

Mr. ALTMAN. Thank you very much, Madam Chairwoman. My name is Edward Altman, and I am a professor of finance at New York University's Stern School of Business and director of its research program in financial markets and credit risk. I have been a professor at Stern School for 41 years, and my areas of teaching and research expertise are in the area of corporate finance, bankruptcy, and reorganization and credit risk. My comments today will

center on an alternative plan to that presented by the automakers and also on the financial health and solvency prospects of one of our largest, or the largest automaker, General Motors Corporation.

I have been analyzing the health of GM and Ford for many years. And we predicted that both GM and Ford would be downgraded to noninvestment grade status several years before it took place in the spring of 2005. I was one of the first analysts to advocate that General Motors should file for bankruptcy protection under Chapter 11 of the Bankruptcy Code, but that the U.S. Government should not turn their back on these very important automakers. And it is very important to underlie that I am advocating that they get a \$40 billion to \$50 billion loan, call it debtor and possession loan, in bankruptcy, and I will elaborate that in a moment. On the other hand, General Motors Corporation is asking for a \$12 billion loan and a \$6 billion line of credit. Unfortunately, this traditional loan, even for \$18 billion, is inadequate and is destined to fail in the current environment and will likely be followed by additional requests for more rescue funds or a bankruptcy petition. GM's cash burn of more than \$2 billion a month will reduce its assets even further and the loan would be exhausted in 6 to 9 months. The global automobile industry, not just GM, is facing the likely prospect of an extended and severe economic recession likely to last for another 2 years.

In my opinion, GM should file for protection, yes, protection, under the U.S. Bankruptcy Code as soon as feasible. The benefits afforded to firms whose assets are protected and whose fixed payments on most liabilities are suspended while reorganizing under Chapter 11 is quite clear. And another sometimes overlooked enormous benefit of a firm in bankruptcy is that they are entitled to what is called debtor in possession loans which gives the lender, in this case the U.S. Government, as I am advocating, a super priority status over all other creditors, unsecured creditors at first. Also, as you heard in the testimony, at least General Motors has a number of unencumbered assets that could be put up as collateral in this debtor in possession lending. Therefore, first priority, even if it doesn't work, the U.S. taxpayer is more than likely to be paid back in full.

There have been thousands of cases of debtor in possession financing in the past, and only 1, 2, 3 have actually resulted in anybody who has made the loans losing money. Critics of this idea will quickly point out that the current market for their financing is closed. Because of that, and the enormous amount that we are advocating, it is necessary that the U.S. Government be the lender of last resort with respect to the DIP financing. I advocate that the government work with one or more banking organizations who are experienced in structuring and monitoring DIP loans. Don't try to do it yourself. There are experienced people out there. And I also suggest that the Treasury Department encourage several of the banks who have received the TARP loans to participate in the DIP financing.

This is actually an excellent investment for these banks to be made at this point in time or any time in the past. Bankruptcy status enhances the ability for management, the existing ones or new management that could be brought into play if the firm goes bank-

rupt. To renegotiate existing and legacy pension and health care claims which is much more difficult outside the protective confines of the court system. Some feel that a GM bankruptcy announcement will cause immeasurable harm to the U.S. economy. But pointing out the high likelihood of bankruptcy will reduce the surprise impact.

In addition, a clearly articulated communication of guaranteed government support will blunt consumers' fears of liquidation, lost warranties, spare parts, availability, or other bankruptcy costs. A bankrupt company under Chapter 11 is not a liquidation. They stay in business.

[The prepared statement of Professor Altman can be found on page 111 of the appendix.]

Ms. WATERS. Thank you very much, Mr. Altman.

Now, Mr. Rohatyn.

**STATEMENT OF THE HONORABLE FELIX G. ROHATYN, FGR
ASSOCIATES, LLC**

Mr. ROHATYN. Thank you, Madam Chairwoman. I appreciate being invited here. I had a certain level of experience in areas sort of parallel to these over the last years, mostly in connection with New York City's flirtation with bankruptcy, which we avoided with great effort. I thought I could sort of give you some of my thoughts and some of our experience since we managed actually to survive. We found very quickly in May 1975 when the banks cut off the credit of the City of New York that we had no other place to go except the Federal Government, and the Federal Government quickly turned down our request for an emergency loan.

So at that point we found ourselves pretty much alone and felt that we—but we decided, certainly Governor Carey and his people decided, that we should not file for bankruptcy, that bankruptcy was the last thing we wanted to do in terms of the economic life of the City, in terms of its social life, and in terms of its future.

So having said, that we turned towards the only potential sources of capital that we could identify; namely, the New York City banks; and secondly, the New York City pension funds. We negotiated with them the creation of the Municipal Assistance Corporation which would finance the City, and the creation of the financial control board which was the equivalent of what I think you are talking about now in terms of oversight. And we managed for 8, 9, 10 months a year to survive on this with this combination. We did finally run out of steam. And a week before we were about to file for bankruptcy, which was Thanksgiving of 1975, we were finished, we were about to file, we got some unexpected assistance from abroad. Because the first western economic summit was taking place near Paris and President Ford, who was then President of the United States, attended that meeting together with Arthur Burns, who was Chairman of the Fed. And he brought us a message from the president of France and from the chancellor of Germany which said, don't even think about going bankrupt, everybody will think the United States is bankrupt, and the dollar will have a crisis and you will have a crisis.

This was 4 days before we were going to go into bankruptcy, and luckily President Ford turned out to be more reasonable than I

thought he might be. He stepped back from the brink, came back to the United States, and signed legislation that gave us a seasonable loan of, I forget how many billion dollars, but which was going to see us through until a time when hopefully we could have a budget that is back in balance. And that was about a 5-year pull. For the City of New York, this was an absolute must that we just couldn't imagine the City going bankrupt or filing for bankruptcy. And sure enough, we also had the good fortune to elect a very good mayor, Ed Koch. We had a spectacular governor. And within 4 years after that, we had a balanced budget. For the next 30 years, we balanced the budget except for 9/11. I doubt that we could do that again now as a matter of fact. Now, I look at what is happening today and the efforts that we are trying to make here to save an industry which is powerful and important. And the first comment that I would make is to hurry up because I think the economy is falling out from under our feet, and there is very little time left in which you will be able to act without having whatever actions you take preempted by other players, whether they are courts, whether they are the legislature, or whether they are the State.

And so the first suggestion I would make to you is take your ground and go to sign because you are going to run out of time. Chapter 11 is not a very quick process, but if that is what you want to do, do it. Or in my judgment, what is much better is an agreement among the stakeholders with respect to salaries, with respect to investment, with respect to balance of power, if you will, which is what we did in New York City. We created essentially in a city, which was heavily a union city, we created a partnership between the business leadership and the labor leadership and the State both in terms of how the City was going to be managed, and how the pension funds and the banks would work together to provide us financing until we could hopefully do it on our own. I think at this point, I will stand down.

[The prepared statement of Mr. Rohatyn can be found on page 220 of the appendix.]

Ms. WATERS. Well, thank you very much, and we will be back to you at the point that we begin to ask the questions.

I would like to now call on Mr. David Friedman.

**STATEMENT OF DAVID FRIEDMAN, RESEARCH DIRECTOR,
CLEAN VEHICLES PROGRAM, UNION OF CONCERNED SCIENTISTS**

Mr. FRIEDMAN. Thank you, Madam Chairwoman, and thank you, members of the committee. I truly appreciate the opportunity to testify before you today. I am a research director and senior engineer with the Union of Concerned Scientists. And as an engineer, I hope to bring a different perspective to this hearing. But first, I would like to point to the perspective of the American taxpayers whose money would be on the line. As I am sure you are all well aware, Americans have, by and large, lost confidence in the Detroit automakers. Recent polling indicates over 60 percent of Americans oppose government financial assistance to them. This is despite the fact that about half the cars and trucks sold last year are from the Detroit 3. Now, there are a lot of reasons for this lack of confidence.

But if this committee, the House, the Senate, and the American people are going to support giving money to the automakers we need to find a way to ensure that this is not a bailout.

Instead, the package should be structured as an investment where taxpayers are given a very clear return through money saved at the pump. To help rebuild confidence in the auto industry, and to build confidence in a package, I suggest four steps:

First, we need to acknowledge what we already know. The survival of the Detroit auto industry depends on their ability to deliver the products consumers need in a world of volatile oil prices and a changing climate. No matter how they restructure themselves, if automakers fail to produce millions, millions of highly fuel efficient cars and trucks every year they will not be able to compete and they will not become profitable.

Second, we need to require a return on taxpayer investment. This will help ensure that this package is in our Nation's interest. Automakers should be required to comply with fuel economy standards 3 years early as GM has effectively said it is going to do in the plans they just submitted. If Detroit automakers were required to follow this path, consumers would see net savings of more than \$30 billion through 2025. And that is with gas at just \$2 a gallon.

Third, require that automakers not bite the hand that feeds them. In return for taxpayer monies, automakers should be obligated to drop lawsuits seeking to block States that are requiring cleaner cars. These States represent over 35 percent of taxpayers and they are demanding cleaner cars through a single global warming pollution standard. Frankly, it would be a slap in the face to ask their residents to put up money to help an auto industry that is undermining their efforts. Further, based on submissions from GM and Ford it looks like they could be in a position to comply with the State standards. If the auto industry wants one single standard, a great way to deal with this is to simply adopt the State standards nationwide.

Fourth, we should preserve the 2007 energy bill's 136 advanced technology loan package and do not even temporarily bypass its modest requirement of a 25 percent increase in fuel economy for qualifying investments. In their plans, the automakers said they are already depending on this and they said that they can deliver on that 25 percent. There is no reason to sidestep that.

If there are other barriers to getting that money to car companies as soon as possible those are the things that should be addressed. Now, Madam Chairwoman, the reason why I am so focused on building confidence in car companies by ensuring a return on investment is because I had very mixed emotions in studying their plans. There are a lot of reasons for hope in some of the plans the automakers submitted. From a promise to essentially meet 2015 fuel economy requirements 3 years early, to the planned introduction of a hybrid family car that beats the competition by at least 6 miles per gallon, the automakers appear to be laying out a more positive direction than they have followed in the past.

But these promises also sound a little too familiar. They sound too much like the unfulfilled promise to deliver an 80 mile per gallon family car or a commercially available hydrogen car in return for billions in R&D money under the partnership for new genera-

tion of vehicles or the freedom car program. I honestly think that automakers that made these promises can carry them out. That has never been the question. Detroit's automakers already have the technology to do this and they are working hard at the more advanced technologies. And they have an extremely talented work force.

So I am genuinely excited about the products they can produce. The question is not whether they can deliver; it is whether they will. And it is up to this committee and the Congress to make sure they deliver on these in return for financial help. Now, I have been a critic of the auto industry so it probably doesn't surprise you to see me pointing out the risk and accepting them at their word. But I also strongly believe that we need a viable domestic auto industry to tackle America's oil addiction while avoiding the worst impacts of climate change. If we avoid something that looks like an auto industry bailout and instead invest in them and require cleaner cars and trucks we can save money, save gas, reduce global warming pollution, and create new jobs along the way. Thank you.

[The prepared statement of Mr. Friedman can be found on page 150 of the appendix.]

Ms. WATERS. Thank you very much.

Mr. Damon Lester.

STATEMENT OF DAMON LESTER, PRESIDENT, NATIONAL ASSOCIATION OF MINORITY AUTOMOBILE DEALERS (NAMAD)

Mr. LESTER. Thank you, Madam Chairwoman, and members of the committee. I want to thank you for inviting me here to speak to you on behalf of all the small new automobile dealers in the United States. My name is Damon Lester, and I am the president of the National Association of Minority Automobile Dealers (NAMAD). NAMAD represents over 2,000 ethnic minority automobile dealers, who represent less than 5 percent of the overall automobile dealer network in the United States.

However, I am here today not simply to talk about ethnic minority automobile dealers, but the owners of all small dealerships in the country as this automobile industry and this economy is facing a complete global economic meltdown. Today, small dealerships throughout the United States are suffering at an alarming rate and are running out of cash and will close their doors if access to capital is not provided to them immediately. While NAMAD supports the bridge loan requests made by the Big Three, we also believe that fair consideration should also be given to those small dealerships who sell the products that the manufacturer produces.

There is a direct correlation between the success of a healthy manufacturer and a healthy and profitable dealership. We support the requests made by Congress for the Detroit 3 to come up with a plan depicting how they are going to spend the requested funds. We support the need for more fuel efficient vehicles and we also support the concessions made by the UAW as well. As all of these efforts provide a blueprint on how the manufacturer will and has revamped its operations.

However, we are concerned about the small dealer. Without the dealership operating effectively, without the manufacturer having a strong consumer confidence in the brands and in the corporation,

consumers will not purchase a vehicle and we need to change that. As I have reviewed the plans submitted by the Big Three, which focus on both short- and long-term viability of their respective companies, I am extremely concerned with some of the language that was alluded to in their proposals of having an excess number of dealerships. We believe that this deserves some review.

As all small dealerships in rural and suburban America on average employ 53 employees and generate over \$33 million in gross annual sales, a small dealership is Main Street. These dealerships provide so much to the communities they serve that if a dealership closes today, the local churches will suffer, the local school and summer athletic teams will suffer, the local 4-H Clubs and Lion's Clubs will suffer, the local Boy Scouts and Girl Scouts Club will suffer, and the local print and television stations will suffer as well.

This is what Main Street is all about; grass roots, roll up your sleeves and becoming active in the communities in which they serve. As this Congress is considering the requests for immediate capital and liquidity by the Detroit 3, fair consideration and attention must also be given to the small dealerships. One very simple way to provide access to capital for these small dealerships is by the Small Business Administration Loan Guarantee Program. It has come to our attention that in the past 10 years, the SBA Loan Guarantee Program has been shortchanged and attempts to fund it have been shortchanged as well.

In fact, just modifying the definition of who is eligible for the Loan Guarantee Program would help small dealerships. Currently the size standard, which is the definition used by the SBA to determine whether or not a business is deemed small, is stated as either employee based or in gross annual receipts based. As it relates to automobile dealers, the size standard currently is \$29 million in average gross receipts, which is well below what the average gross annual sales are today. We believe if the size standard was modified to reflect an 100-employee based model, it will provide greater assistance for these small dealerships to survive.

It is our hope that the loan guarantee will provide more assurance for financial institutions to begin lending to automobile dealers as it has come to almost a complete halt right now. We understand with any financial assistance program not all will be saved, but we truly believe that those dealers who have been historically profitable but are now going out of business for the lack of access to capital, can survive. I believe if there were an increase in the SBA Loan Guarantee Program of \$1 billion from the TARP, which should be dedicated to provide assistance to small dealerships will potentially cover over 80 percent of those dealerships running out of cash now and being forced to close their doors.

This loan guarantee will provide assistance to those rural and suburban dealers as well. In addition, I will recommend that \$1 billion of TARP dollars from the manufacturer requested funds be directed to support small dealerships with the stipulation that these funds be used to purchase real estate, equipment and provide job training. And on behalf of the National Association of Minority Automobile Dealers, I want to thank the Detroit 3 for opening the doors for the diversity we now see among the small auto dealer network through its dealer development programs. Thank you.

[The prepared statement of Mr. Lester can be found on page 165 of the appendix.]

Ms. WATERS. Thank you very much.

Mrs. BIGGERT. Madam Chairwoman, I have a Parliamentary inquiry. I notice that this witness is not on the memo to us, nor do we have his testimony. And I don't know whether the chairman and the ranking member discussed this, but I would hope that this would not set a precedent, and I am not sure that the testimony should be entered into the record.

Ms. WATERS. Certainly the chairman is not here, but it is my understanding that a decision was made. I don't know what conversation took place between the chairman and the ranking member, but I would certainly hope that there would be no opposition to this testimony being a part of the official record. And I would suggest that there may be follow-up conversation with the chairman about it.

Mrs. BIGGERT. I certainly don't want to dismiss the testimony, and it is very relevant to this. But with the caveat that I would not want to see this set a precedent that this happens when none of our staff is aware of this.

Ms. WATERS. I can appreciate that. And I do not think that there are many situations where the chairman would add someone at the last moment without that kind of conversation. I certainly think we should note that. I shall talk with him based on this conversation that we are having and hope that would not happen again.

Mrs. BIGGERT. Thank you.

Ms. WATERS. You are certainly welcome.

The CHAIRMAN. I made the decision to add Mr. Lester, as I made the decision to extend the time to accommodate Mr. McCotter. Sometimes we don't always have things as we anticipated. It struck me that the dealers should be represented. We did have a dealer representative on the last panel. And frankly, also the aspect of the impact on the minority community seemed important. So it did not seem to me that anybody would object to any witnesses. As I said, from time to time, I think it is important to make decisions that will I think accommodate important interests reasonably in ways that don't cause any problem. Does the gentlewoman have any further questions about it?

Mrs. BIGGERT. If the gentleman would yield. No, I just wanted, since you were not here, and the question was that there is no testimony that we have or anything. I just wanted to know, just to make sure this isn't a precedent that will be when this is not discussed—

The CHAIRMAN. No.

Mrs. BIGGERT. And I can understand.

The CHAIRMAN. It is a response at the last minute to someone calling to my attention a mistake, and I realized that there wasn't testimony. So it will not be the regular order, but I couldn't rule out doing it again. And I will say, from time to time, I have accommodated requests that have come from Members on either side to change things. We were up to Professor Sachs, I believe.

STATEMENT OF JEFFREY D. SACHS, DIRECTOR, THE EARTH INSTITUTE, AND QUETELET PROFESSOR OF SUSTAINABLE DEVELOPMENT AND PROFESSOR OF HEALTH POLICY AND MANAGEMENT, COLUMBIA UNIVERSITY

Mr. SACHS. Mr. Chairman, thank you very much. Let me start by commending this committee for keeping at this, because this is of extraordinary importance for the American economy. Nobody likes this crisis, nobody likes these bailouts. History will record that this committee made a great service to the country in passing the TARP legislation. We have a crisis that is unprecedented in its speed and ferocity. It is hard to get everything right. You are doing the right thing. I would plead with you to stay in session to get this one done as well, otherwise we will have a meltdown in this economy that is of absolutely extraordinary proportions. This industry has enormous value worth preserving. These are some of the largest companies in the entire world. This is absolutely the worst financial crisis since the Great Depression. We all agree, aside from specific tactics on the need for a large government loan and a government involvement, so we are down to the details.

In my view, Chapter 11 is not the best option right now. It is extraordinarily unpredictable. The last time we did a Chapter 11 was Lehman Brothers. That turned out to be the single biggest financial shock in modern history. And I think that we want to avoid going to that route as a first resort. In my view, it is the last resort. There are tremendous unpredictabilities on the consumer side, the finance side and the supplier side, possibilities of cascading disasters that I think we would do best to avoid right now. Now, we all agree that we need a significant restructuring. What GM put forward in detail, for example, is a very significant balance sheet restructuring. I believe that it can be done outside of Chapter 11, and I think that is what should be attempted right now. And I think it is enormously impressive what they put forward and enormously important for us to support that process. They call for an oversight board that can help that process. I agree with that. And I think that this is the basic structure in which this should proceed. Who should pay for this? This is the hot potato that everybody is worrying about, understandably. There are three sources of funds it seems to me, not just two. One is a direct loan by the Fed.

I think Chairman Bernanke is the missing personality at these negotiations, quite frankly. I do not understand the reticence of the Fed right now. The Fed lent against Bear Stearns assets. The Fed lent against Citibank assets. The Fed can lend against GM collateral. This is a big mistake that is being made right now. This is a systemic financial risk in this country and a substantial one. And we need the Fed here as well. So in my opinion, this is the first place where we should be looking for financing. Second is TARP. It fits perfectly with the intentions of the TARP that this be used for this purpose. And I am so happy with the testimony of Mr. Dodaro yesterday and again today. This is absolutely appropriate that the TARP should be used for this purpose. The third is section 136. I also support that.

Let's be pragmatic. Get this job done so that we don't have a meltdown. Have a new Administration come in. It is going to have to take a longer term look at this in early 2009 to help this process

go forward. This is not the end of the story; this is the beginning. That does not mean endless amounts of new money. That is not what I am implying. What I am implying is government support for a basic restructuring of this industry to achieve financial restructuring, balance sheet change, and model change along the lines of the environmental goals that we all share. So we need to get there because otherwise we will have a meltdown. I think at this point the double standard with Wall Street is so painful and so palpable it is hard actually to understand, how one throws a \$306 billion guarantee over Citigroup without a single hearing or a single plan or a single datum, but we can't get even a loan effectively senior and collateralized for millions of workers is a shock to me.

I don't even understand what they are thinking right now. Because this is absolutely as systemic as Citigroup or absolutely as systemic as the other financial matters. This is our largest industry. Are we going to watch it melt down by Christmas? That is what we are talking about, with all of the disintegration of value that would go along with this. So I think we have to frankly, in my opinion, have Chairman Bernanke and Treasury Secretary Paulson here at the table. We have three sources of funds. It needs to be worked out. This is not an endless open-ended process. There are plans on the table which your committee has successfully elicited, a great contribution of these hearings I might add. And it is going to be a process now to get to the next Administration for a longer term considered strategy.

Let me finally add that all around the world, governments are supporting their automobile industries. Just yesterday, President Sarkozy made announcements about France. This is going to be a worldwide phenomenon given that we are in the sharpest downturn in modern history. And so please do not leave this weekend. I don't want to open up to see what the markets look like on Monday morning because Congress has gone home and hasn't been able to figure out how to do \$25 billion when we have trillions of dollars at stake. Thank you very much.

The CHAIRMAN. You are pretty free with our weekends, Mr. Sachs.

Mr. SACHS. With all due respect.

The CHAIRMAN. You may have to give notes to our responsive spouses, significant others, and children.

First of all, I appreciate—let me ask this. Do you have an opinion on the response that was made by the Treasury and the Fed in various combination to Citigroup and AIG?

Take them one at a time. What did you think about the response to AIG?

Mr. ALTMAN. I think the AIG bailout was necessary. I think the deal that the U.S. Government got was very poor. AIG is a global organization with an incredible amount of—

The CHAIRMAN. They didn't declare bankruptcy, did they?

Mr. ALTMAN. No.

The CHAIRMAN. Do you think they should have? I mean, why the requirement for bankruptcy here and not for AIG? I am picking up—or similarly with Citigroup. Both of those got large amounts

of money without bankruptcy. Why is bankruptcy a necessity for the autoworkers or—

Mr. ALTMAN. In this case, what I am advocating is that the government does not turn its back on General Motors when they go bankrupt. In fact—

The CHAIRMAN. I understand that.

Mr. ALTMAN. —I am advocating a much greater amount of assistance than what General Motors and the rest are asking for.

The CHAIRMAN. I understand that, but I still—it does seem to me there is a difference in the treatment legally in terms of bankruptcy that was provided with regard to AIG and Citigroup on the one hand and what you are advocating here.

Mr. ALTMAN. There is a difference.

The CHAIRMAN. What is the justification for being harsher on the auto companies than on the financial companies?

Mr. ALTMAN. Well, first of all, I don't think we are being harsher on the auto companies. The auto companies—

The CHAIRMAN. You don't think if AIG was told if they had to do some form of bankruptcy, they wouldn't have thought that was being harsher?

Mr. ALTMAN. I am sorry. I didn't hear the question.

The CHAIRMAN. Well, if AIG had been told that they had to declare some form of bankruptcy, etc., you don't think they would have considered that to be harsher than what in fact happened?

Mr. ALTMAN. Sure. Absolutely.

The CHAIRMAN. Then why isn't it harsher for the auto companies than it was for AIG?

Mr. ALTMAN. No, no. What I am saying is that I think the only hope for General Motors and the rest is to go bankrupt, to restructure, to perhaps even change the management of their companies.

The CHAIRMAN. We changed the management of AIG without bankruptcy, and we restructured. I just don't understand why you have to take the extra step of bankruptcy here and didn't do it there. And there is this concern of a disparity that—and the ranking member made the point with regard to even the treatment of requests for approval of various forms of banking.

I appreciate it. I think that is both a perception problem and a real problem; and I have to say I think there is to some extent in the culture and at the decision-making level what I have said before, a blue collar/white collar bias. I have heard a lot of requests from Mr. Gettelfinger to have the blue collar workers that he aptly represents reduce their compensation because it is greater than some other autoworkers. But my guess is the average autoworker gets significantly less in annual compensation than the average worker at Citigroup or AIG. And no one asked that they reduce their wages. We did talk about cutting out their bonuses, but I am sure the autoworkers would be perfectly willing to give up their bonuses, which they don't have. So that is what is troubling to me.

Let me ask the panelists, Mr. Sachs, and Mr. Rohatyn, who have some experience here, what is the likelihood in your judgment of our taking some action and it leading ultimately to success, to the survival of the companies? Mr. Rohatyn.

Mr. ROHATYN. I would think, Mr. Chairman—and depending on how quickly it is done, because every day that goes by creates an-

other problem—I would think you have a 50/50 chance of being successful. The case is difficult to make from a popular point of view, but I think it is vital from a substantive point of view.

The CHAIRMAN. You do substantive and we will do popular or unpopular.

Mr. Sachs?

Mr. SACHS. I think the chances of GM and Ford remaining self-standing, successful companies is over 90 percent. Very, very high probability. Chrysler, obviously, the chance that it gets merged with some other company is more likely. But these are major global enterprises. Unless in the middle of this crisis they are driven to disaster, they will survive and they will recover.

The CHAIRMAN. Thank you.

Mr. Friedman, one last question because—and I began and Mrs. Maloney ably carried out on the issue you raised about the lawsuit. One of the arguments we got was, though, that the three American companies are only some of the plaintiffs. If they withdrew as plaintiffs, would that end the lawsuit? Would it be more than a symbolic victory to get them out if other plaintiffs were able to go forward on the same legal issues?

Mr. FRIEDMAN. There are definitely other plaintiffs. But let us be honest, the leaders of these lawsuits have been the Big Three.

The CHAIRMAN. I understand that. But, as a practical matter, what would the effect be if they got out? Would their lawsuit still go forward?

Mr. FRIEDMAN. You would have to ask the members of the other foreign companies and some of the dealers what they would do. But I would think it would be incredibly difficult for them to maintain those lawsuits if the Big Three stepped away.

The CHAIRMAN. The gentlewoman from Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Mr. Friedman, I serve on the Science Committee as well as this committee, so I am really extremely interested in the alternative vehicles and all that goes into that. And I worry about the fact that we have to continue this, particularly with the price of gasoline going down as in the 1970's when everybody suddenly thought, well, let us bring back the big cars. But I do see a difference here with people really looking forward to having the fuel-efficient cars. Do you think that that is one of the factors that—why people are not buying a car right now, that they know this is coming soon and there are already the hybrids and they don't want to buy a car that is going to lose value, that doesn't last as long as some cars have in the past?

Mr. FRIEDMAN. I am not sure people are avoiding cars because they are just holding back and waiting for the next silver bullet.

I think the challenge, actually, has been for the last 7 years before the credit crisis people weren't buying as many cars; and the reason for that was because gas prices went up and they were less affordable. But, even more importantly, what happened during those 7 years was overall sales went down by 1 million, but domestic sales went down by 2 million. And what that means is the Big Three were losing market share and the imports were gaining market share in part because they had a better reputation and in part because they had better fuel-efficient vehicles.

Gas prices are low now, but basically we have low prices by recession. That is not a sound basis for a financial and energy or an environmental policy. We need to be prepared for when gas prices spike again.

Mrs. BIGGERT. What we also had, though, was the rebates that people got with the 60,000 cars in each of the different companies if they bought a hybrid car. That was added in 2005, and most of those have expired now. Do you think that is one way to spur people to buy cars?

Mr. FRIEDMAN. I think there are two steps that we need. One in general for buying cars, I do think we need to find a way to get consumers more resources to buy new cars and that those resources should be directly tied to the performance of those vehicles, not just hybrid vehicles but even just a simple conventional vehicle like some of the technology Ford is talking about that can boost fuel economy by 25, 30, or 40 percent.

The tricky thing is going to be, how do you pay for that? Now, one option is in the broader stimulus to invest money, to encourage consumers to buy more cars. Another option is to create a system of fees and rebates to help move the market while you are also increasing standards.

Mrs. BIGGERT. There is, you know, the EISA, section 136. You talked a little bit about that, and I wasn't quite clear what you meant. But this really is to encourage the companies to invest in the type of cars that we want to see.

But one of the plans that was brought up was to take some of that money and to infuse the three car companies to provide the money from that. But isn't that going to reduce the amount of research and development into finding the ways to improve CAFE standards and all of the things we need to do?

Mr. FRIEDMAN. I do worry there are risks of robbing Peter to pay Paul. If that money is shifted over without the same conditions that are currently under it, which is that those investments must provide at least a 25 percent increase in fuel economy, if the car companies and Congress do not accept the fact that the auto industry's future has to be founded on increasing fuel economy and innovation, these plans will all be doomed to fail.

We need to invest in them in a smart way and make sure consumers get something back. I think it is powerful if we can tell consumers we will save you \$30 billion by 2025 by requiring automakers to do more than they already have to in terms of fuel economy. I think that will build significant confidence in a world that right now, because of the previous bailout, are not very comfortable with where this money may or may not go.

Mrs. BIGGERT. Just a short question for anyone who wants to answer. We used to be able to deduct interest on auto loans. A lot of that has gone into home equity loans. Does anybody think that that should come back? Will that spur coming back? Mr. Lester?

Mr. LESTER. I think overall that is one mechanism that would be able to stimulate consumers to begin to buy vehicles as it was done in the past that consumers were able to write off interest on the loans. I know it is being researched now through Senator Mikulski. But I do think that it is one viable option.

Mrs. BIGGERT. Thank you. I yield back.

The CHAIRMAN. The gentlewoman from California. I am sorry, the gentleman from Pennsylvania.

Mr. KANJORSKI. Thank you, Mr. Chairman.

Mr. Sachs, I listened to your testimony there at the end as I returned from a break, and I have to say I am in full sympathy with what you are saying. I cannot understand all of this problem and we are arguing over what pot this comes out of. It is like—I gave an example just recently when someone asked me: It is like having a starving man come up to you, and you go through a mental argument with yourself as to what pocket you should take the money out of in order to buy him food. In the meantime, he starves to death.

In this, it seems the inaction of the Congress and the Administration in arguing over the energy pot, the TARP pot, or whether we develop a new pot, who really cares? What I do care about is how we structure this, because I think there are several precedents in the future that we have to make. One I am disturbed about is that we are rushing this in the 11th hour to do something very quickly with very poor forethought; and just having come off the Wall Street rescue program, I think we can all see now that what we anticipated to be responsible implementation by the Executive Branch of government has not necessarily followed. Now, maybe they were great at Goldman Sachs, but I do not think they would have written some of the deals they wrote for Goldman U.S.A. and, as a result, we have to tighten up what authorities we allow these people to do in dealing with the taxpayers' money.

Now one of the things that I think we have to come up with is several conclusions. I watched all of the testimony yesterday before the Senate, and I was particularly moved by the questioning of Senator Corker and then the testimony of Mr. Zandi. I think they really in a clutch put our problem.

Mr. Corker is a Republican, and I am a Democrat, so understand this is very bipartisan, this discussion. I thought he was absolutely on the ball when he talked about the problem with these companies is that they are not real companies. When you look at their balance sheet, you reject the viability of success of these companies. They are not going to make it. They have to be restructured. They have to have haircuts, if you will, through all of the elements of contribution, whether it is management, labor, suppliers, creditors, dealers. They all have to be brought in.

Now, that is a hard thing to put together. We know from our experience with Chrysler bailout number one, it took 3 months to do that, 90 days. So what can we do in a week? We cannot do much. I do not think we can get to a final settlement to prevent bankruptcy if bankruptcy is 25 days off.

So my remedy would be very simple. Right now, let us take the big risk, with what we have pending, do an emergency plug-in of \$4 billion for General Motors, \$4 billion for Chrysler—that is what they say they basically need to make March 31st—and then dedicate ourselves, together with the present and the future Administrations, to put a settlement sheet together as to what the Congress and the taxpayers need as assurances which would mean restructuring these companies. And not being too optimistic as to whether or not they are going to do this.

Impose a master, a super master on the board—or oversight that can impose a settlement. Tell them what they have to do. If the creditors aren't willing to take a haircut, enforce a haircut. If we can do that, I think we can get to a very optimistic program.

Now, with all that being said, there is one other area I would like to hear from you, very quickly. I am disturbed with the fact that they have woven into their network the inability for any one of them to fail without causing systemic risk to the whole system. We have allowed something to occur in this system that one little, small company like Chrysler can force the United States Government to come in with untold amounts of money. Because if they fail, the suppliers fail, or the other companies fail. It will be systemic risk. Something we did in the law to allow them to get that complicated.

And part of that is having them become financial institutions, too. Why can we not spin off their financial elements from these "manufacturers?" Let them be manufacturers and let banks do financing. What is the problem with that?

As I hear through all of the testimony, particularly from Chrysler, the biggest part of their business and the most important asset they have is the financial part of the asset. I think they would forego the car business. They want to be in the financial business. Let us separate them.

What are your thoughts on this? Very quickly.

Mr. SACHS. Thank you very much, Congressman.

I think, in general, the logic that you are making a loan against a credible scenario, but it is going to be taken up again in the spring by the new Administration in a more clarified structure is the right logic of what is happening right now. You don't have the time to fine tune this thing, but you can't let it go at the same time. I would urge you to go a couple of months later, let this new government come in, have a moment to find their seats, to actually think through this thing so that maybe it is May 1st, maybe it is June 1st.

But you are right, that this is a two-step process. We can't let the meltdown happen right now. The bigger restructuring depends on the quality of Executive Branch leadership and your oversight.

I feel your pain on TARP. I want to commend you for passing TARP, though. It made a huge, positive contribution.

And on the subject—

The CHAIRMAN. The time has expired.

The gentleman from Delaware.

Mr. CASTLE. Thank you, Mr. Chairman.

I am actually going to follow up along the same lines, Professor, that Mr. Kanjorski was just asking about.

You indicated in your opening statement here that virtually any of these sources that have been discussed potentially could help with the auto bailout, and you are critical that the Federal Reserve has not been involved. You talked about the TARP. You talked about, I think, the section 136 funds which are out there. My question is, is there any reason why we couldn't use multiple sources, maybe even some of the larger banks that hopefully are being restored to credibility and more liquidity could be involved as well?

Mr. SACHS. Essentially, the Fed option is a loan to one of our big banks or a group of banks which would then extend a non-recourse loan against Big Three collateral. GM testified this morning that they have some collateral for that this morning, also. That is why they could be a part of this solution.

No doubt using all three would make sense. But it means getting people in the room to negotiate something. That is why I say the weekend, as painful as it is, is really important to get this thing done. And I don't think that there is a magic to not using section 136 or only TARP and so forth, but probably all three can play a role.

Mr. CASTLE. And, just briefly, in answering Mr. Kanjorski, you were agreeing that we could do something on a temporary level—it could be a 6-month or a 4-month basis over the more permanent funding solution at a later time?

Mr. SACHS. I would urge you not to make it so short term that everybody says, my God, there is no solution here. But, on the other hand, you don't have to solve a 5-year problem today; and you shouldn't solve a 5-year problem today. Because you need the Executive Branch, and that means a new government and giving them a bit of time. So I would go 6 months out and get that done with the positive intention that we are on a new path in this country and that this is to make a new industry out of this. And I think you will make a great contribution that way.

Mr. CASTLE. Good. Thank you.

Mr. Dodaro, have you looked—has your office looked at these numbers and are you in agreement with the numbers? I mean, we have seen the reports from Ford, Chrysler, and General Motors; we have looked at them, and our staff has looked at them. I am not saying we have the expertise to understand them. They are making representations today which you probably heard about the exact amount of money they need even on a month-by-month basis at this point. We need, I think, verification of that or the rebuttal side of it if that is what the case is.

Have you all looked at that carefully? Are you satisfied that their representations are accurate? I am not suggesting they are misrepresenting intentionally, but they are accurate in terms of their numbers?

Mr. DODARO. First of all, we were brought in at the time when they were prepared to plan. So we have only had the opportunity like everybody else to look at the plans since they were submitted late on Tuesday.

Mr. CASTLE. That is right. We assume you are a lot brighter in this area than we are.

Mr. DODARO. There are a couple of issues, Congressman.

Number one, we have read the plans. We don't have normal access to the records of private sector entities. We have tried to look at some of the publicly available information.

Chrysler, being held by a private equity firm, doesn't produce public financial statements, so the publicly available information on them is really very limited.

And looking at the plans, there are assumptions in the plans that I think need to be monitored very carefully. There are assumptions that they can exchange equity for some of the debt that

they owe. There are assumptions that they can negotiate with a number of their stakeholders in bringing down some of their costs. There are assumptions about car sales going forward. So that is why we have suggested, you know, the immediate approach and even the cash draws that are in place.

There ought to be certifications by the companies that credit is not available anywhere else. Someone on behalf of the Federal Government should look at the cash flow information, the details that support their plans and disburse the money, even in the immediate period. The money is to be needed between January and March, and circumstances can change. So somebody on behalf of the Federal Government.

That is why we had suggested a board or some entity that provides the immediate assistance could get those operating plans and cash flow justifications and make sure that it is warranted in that case, while the more longer term restructuring issues could be settled along the lines that Professor Sachs is talking about.

Mr. CASTLE. Well, I agree. I think clearly we need the board; I think clearly we need your engagement and involvement in it. But it is interesting, because you are sort of endorsing the shorter-solution-first concept as well.

Mr. DODARO. There are many issues. This is a very complicated situation. And I think that if the government goes into it, we ought to go in with eyes wide open, that this is—as I mentioned in my opening statement, you have short-term liquidity issues, but you have restructuring issues, and this is all occurring against the backdrop of a very uncertain, unchartered economic climate.

The CHAIRMAN. The gentlewoman from California.

Ms. WATERS. Thank you very much, Mr. Chairman.

I have tried to concentrate my efforts on the small dealerships. One of the reasons I do this is because politicians and others are constantly saying we are bailing out Wall Street, but what about Main Street? And it has become the kind of rhetoric with no meaning to it. I really am concerned about Main Street. And while the manufacturers came in here today talking about they have some consolidation plans, they failed to really tell us what those consolidation plans are.

I maintain that simply getting rid of all these small dealerships and consolidating by allowing the big boys to buy out all of the small dealerships—I want to ask Mr. Lester. Many of those small dealerships are minorities. Many of them are in trouble. I keep hearing that they can get no help from the financial arms of these auto manufacturers, whether it is GMAC or the others. They all have these financing arms that have shut down on them.

One can make an argument, well, they are in financial trouble. However, as I understand it, they are literally blocking the ability for small, independent companies to be able to stay afloat, just as they are asking us to help them do or to be able to buy up some of the other smaller dealers that would like to sell.

Can you help me understand? What do you know about this consolidation plan? Why can't you get money from these financing arms? And if you can't get money from them, surely you can get money from these banks that we are bailing out. What is going on?

Mr. LESTER. Right now, there is an overall freeze for access to capital via a captive institution or a larger financial institution to provide credit or capital to any dealership. As a result of this credit freeze that we are in right now, most of the banks and the captives deem it too high risk to lend to dealers now when, historically, they were courting dealers, particularly minority dealerships, for their business.

As relates to the captives, it is even to the point as well as the financial institutions that when we are in an environment of decreasing our interest rates, they are increasing them and putting a stronger requirement onto the dealerships. And when we are in an environment where there is very few traffic in those stores, you cannot hold your operating—working capital requirements on a monthly basis if you have a squeeze from your local bank curtailing your loan, you have a squeeze from your lender, increasing your floor plan rates, and you have the inability and also the actual shutting down of your access of credit from via your line of credit with your financial institutions.

Ms. WATERS. I understand that, if I may, that many of these small independent banks have operated very well for many years. They are good managers, and they just happen to be caught up in this economic crisis. But if they can stay afloat as the automobile manufacturers are asking us to keep them afloat that they would be able to resume and make a profit and do well. Is that true?

Mr. LESTER. Yes. Many of the dealerships believe that if they can get some help they can survive these turbulent times. Dealers are one of the most resilient entrepreneurs out there. But if there is no help or no availability to capital, they will just go away, run out of cash and close their doors.

Ms. WATERS. Are the big automobile manufacturers that were here today, are they calling in their loans today at their financing arms? Are they squeezing small independent dealers now?

Mr. LESTER. Yes. They are to the point of asking for—curtailing their floor plan loans. They are shutting down lines of credit. They are not providing any access to capital to the standpoint where, when you had available credit made available, they have actually closed those lending down.

Ms. WATERS. Do you believe that if we are to rescue these big automobile manufacturers we should insist or include in our language support for the small independent dealers?

Mr. LESTER. Yes. If support is going to be given to the manufacturers, the dealers also have to get some fair support as well as they have—they work hand in hand. If they can't make it, there is not going to be anyone left to sell it.

Ms. WATERS. Thank you very much, Mr. Chairman.

The CHAIRMAN. The gentleman from Alabama.

Mr. BACHUS. Thank you.

Professor Sachs, I want to welcome you and express to you that I have enjoyed our friendship and working together on issues. It is good to see you.

I am going to address my question to Professor Altman, because my question deals with restructuring. And I think we all agree that there has to be a fundamental restructuring of the industry. My first question is, the Comptroller General mentioned that general

restructuring—I may be paraphrasing you. There are a lot of complex issues. I think you expressed your concern that these couldn't be dealt with in a matter of months or weeks for sure; is that correct?

Mr. DODARO. I think they need to be carefully thought through, and I think there has to be somebody at the table representing the Federal Government and the taxpayers' interest and safeguarding those, to be done successfully, to achieve the right outcome.

Mr. BACHUS. All right. And I think you are dealing—restructuring, it usually takes years. I mean, does it not? I am not against that. I am just saying it is not something you go in on a Friday and you come out a month later. Is that—am I accurate? Or would you say—

Mr. ALTMAN. Yes, I would endorse that. In a Chapter 11 reorganization, the average time is 18 months to 2 years.

Mr. BACHUS. So it is not a short and sweet process.

Mr. ALTMAN. This is a very complex company with many international as well as domestic aspects. It would not be a short period, and that is why they need sustainable funding for a long period of time.

Mr. BACHUS. That is actually where I was going. It is a process of several months, at least, if not 18 months to 2 years, particularly with the challenges that the domestic automobile industry has and the extent of restructuring. So even this idea of prepackaged—I mean, there is issues that prepackaged is—certain things should be dealt with, but they have to be dealt with during that process of restructuring.

Which brings me to this: They are going to need financing. You don't have restructuring without significant financing.

Mr. ALTMAN. Absolutely.

Mr. BACHUS. And I think you have to have successful restructuring to get the money back. So it ought to be—whether you are a Democrat or Republican or conservative or liberal, we ought to all want a fundamental and successful restructuring. And that can't happen without financing.

Mr. ALTMAN. Absolutely. And the idea that we put forward is that they would get more than the \$18 billion that General Motors is asking for. We actually ran through our models to look at what the \$18 billion would bring to them, and they still come out as a likely bankrupt company with the \$18 billion. With \$4 billion or \$8 billion, you know, there is almost no chance.

Now, in terms of the restructuring, that probably would take a minimum of 12 months, probably closer to 2 years, which is consistent with how long the recession is likely to last. So the best time for them to be coming out would be when the recession is over; and in this period of time, they need this \$40- to \$50 billion or more.

The testimony yesterday in the Senate from Mr. Zandi was the fact that they needed \$75- to \$125 billion, all three of them. And the numbers are much larger than what they are asking for. They are going to be come back asking for a lot more in a very short period of time.

Mr. BACHUS. But if you give them \$20 million without structural changes, then you lose that. If there is a successful restructuring

and they are profitable, you know, there is not a loss to the taxpayer, at least the taxpayer is protected. So that maybe sounds a little different.

Let me wrap it up by saying that—because my time will expire—I am very disappointed—I expressed this to the first panel—with the financial institutions that have received hundreds of billions of dollars with the express intent of loaning that to America's manufacturers. And is that not a source of funds?

Mr. ALTMAN. Yes. Well, let me mention, with respect to the DIP financing, it is—these are experienced institutions dealing with DIP financing. They could help out enormously, but they also should help out in terms of providing part of the DIP financing funds. It is a good investment for them. It is a good investment for the United States taxpayer. And I believe this is the way to go rather than simply having no participation on the part of expertise in this area.

The CHAIRMAN. The gentleman from North Carolina.

Mr. WATT. Thank you, Mr. Chairman. I have three questions.

First, Mr. Lester, I take it if we do something either short term or intermediate term, your position is we ought to include the suggestions that you have outlined in some detail on the bottom of page 3 and the top of page 4 of your testimony?

Mr. LESTER. Yes.

Mr. WATT. Mr. Sachs, what is your take on what kind of pressure we should be putting on this private equity firm to ante up this money for Chrysler's part of this? There seem to be two or three different kinds of spins that are being put on that. Can you give me your brief take on that?

Mr. SACHS. I don't put the Chrysler situation really different—so different from the other two in that regard. I think none of them—

Mr. WATT. Do you think the private equity firm would sit there and allow Chrysler to go into bankruptcy as opposed to anteing up the rest?

Mr. SACHS. Yes.

Mr. WATT. Why?

Mr. SACHS. Because if there is no chance of financing that gives them the way out, that may be their best shot right now, is to take zero.

Mr. WATT. Even if they have the money?

Mr. SACHS. Yes, because it may just go under. If there is no financing for restructuring, it doesn't make sense.

Mr. WATT. Okay. And, Mr. Sachs, again, you talk about a 6-month timeframe, but you heard Mr. McCotter's suggestion that we do this on an even narrower timeframe. What was your reaction to Mr. McCotter's suggestion about how we do this on a smaller amount with a shorter timeframe?

Mr. SACHS. I think this is relevant also for this restructuring issue. We can't send a signal that we are just dripping an IV line into a moribund patient. That will not work. The idea of doing this for 3 weeks is a zero in my mind. It doesn't make any sense.

Six months only works, by the way, if it is done in a very positive way with President-Elect Obama saying, we are going to make this work for the longer term; we are going to be in there.

And—sorry, if I might, Congressman, just to emphasize—we don't need Chapter 11 to do a balance sheet restructuring. We can do it in the shadow of this and preserve value.

Mr. WATT. You are arguing about something that I am on your side on.

Mr. SACHS. Yes.

Mr. WATT. What is the 6-month cost? Is that the \$19 billion or what did that come to, the 6-month cost that you are talking about?

Mr. SACHS. I would have to add up for each of them, which we could do on that basis. But it is somewhere around the number you are giving.

Mr. WATT. \$16- to \$18 billion?

Mr. SACHS. Something like that. Yes.

Mr. WATT. So you are suggesting that a viable approach to this, instead of making a \$34 billion commitment, would be to do it in a 6-month increment?

Mr. SACHS. What I am suggesting in the reality of this is that what we are doing right now is getting to a position where a more fundamental decision can be taken in the spring. And it is going to require more money in the spring. But against the kind of longer-term scenarios that have been presented to this committee. So I don't want to cut it so close that the consumers say it is an abandonment. On the other hand, you don't have to settle everything for the long term right now. You really do have to carry it in a positive way to the next government.

Mr. WATT. What is your reaction to that, Mr. Dodaro?

Mr. DODARO. Basically, we had suggested if the Congress makes the determination they want to provide assistance here, structuring a short-term and a longer-term approach is an appropriate way to go forward.

Mr. WATT. So what you are saying is consistent with what Professor Sachs is saying?

Mr. DODARO. Yes. The only additional point that I would make, Congressman, is that even in the short term, I think there has to be a guardian, a Federal guardian and an independent person making sure that the disbursements are warranted even during that short intermediate period of time.

Mr. WATT. To the extent part of that money would come out of the TARP, there is already an existing framework for doing that. Is there one in the section—whatever—106 money or whatever it is?

Mr. DODARO. Yes. What I am talking about, though, would be more rigorous than what is in the TARP program right now.

Mr. WATT. Do you mean what we expected the TARP oversight people to do, rather than what they are actually doing?

Mr. DODARO. I think we need more information up front to have confidence that the government's expenditures are there, and in the short term I would have a higher risk premium.

The CHAIRMAN. The gentleman from Massachusetts.

Mr. LYNCH. Thank you, Mr. Chairman.

I appreciate the ranking member's work as well. I want to thank the witnesses for their thoughtful testimony, all of the witnesses here today.

I remain unconvinced, just after listening to the CEOs of the various companies, that any of these plans might ultimately work the way they have laid them out. Just as a threshold matter, the projections that they have for growth in auto sales from year to year during this supposed bailout, totally inconsistent with the employment numbers that we saw come out today; and the projections of some related industries like the steel industry, they are projecting a different trend certainly.

And if I take Mr. Dodaro's suggestion, I would make an assertion, sort of put a marker down, that we need to have a domestic auto industry in the United States. It may not be the Big Three. It might be the Big Two. That might be what has to happen here.

But I am concerned—I hear the different views of bankruptcy, especially with respect to Mr. Dodaro and Professor Altman and Professor Sachs. I am concerned, Professor Altman, with your scenario there where they have this, you know, bankruptcy proceeding, we try to take care of this problem in bankruptcy. I have had dealings as an attorney trying to represent employees, trying to get their pension funds and their health and welfare benefits from companies that have gone into bankruptcy. Bankruptcy courts are not known for their speed, God knows. And I think easily with companies of this size, it could be a very long bankruptcy. It could be 3 to 4 years, and they would be in bankruptcy when the market comes back. I think they would be at a severe disadvantage with respect to some of these foreign automakers. I think they would lose a lot of market share, and they wouldn't be able to respond. As well, not only the effect on the firms themselves, but also the cascading bankruptcies that might happen, that probably will happen with these suppliers right down the line.

So what I would like to hear from you—here is the essence of my question: Is there some way—and we are looking at this as a pre-bankruptcy sort of assistance now. Is there a way—you describe, Professor Altman, about a super seniority granted to the taxpayer. That is job one for us in Congress. We have to protect the taxpayer. Is there a way to grant super seniority outside of bankruptcy before we go into bankruptcy to any monies that might go?

And, again, I am not convinced that it needs to or that it should. But we have to protect those interests.

Is there a way to create a receivership in some way to make sure that whatever dollar goes to GM or Chrysler or Ford that if eventually they do collapse into bankruptcy that the first dollar that comes out of there, before a dollar goes to any of those CEOs, that the taxpayers are repaid? Or is there some other configuration—

I tried to look through history about different examples that might be comparable to this one, and I looked at the steel seizure cases during the Truman Administration where he went in and just took control of the steel industry. He obviously was overturned by the Supreme Court because he didn't have congressional authorization to do that. But, in this case, maybe it would be incumbent upon Congress to grant President Obama when he is in office some emergency type of power.

Could you just elaborate on how you see that all working out?

Mr. ALTMAN. Under the law, you are not permitted to issue new debt and take precedent over existing debts that have been

collateralized with assets behind it. So that is protected. General Motors has put forward a plan that they say they have unencumbered assets—

Mr. LYNCH. Let me stop you there, though. If Congress passed another law, would it be unconstitutional, would we be derogating the rights of contract if we put the taxpayers' lien ahead of everybody else in the special circumstances?

Mr. ALTMAN. It would undermine, I think, the entire credit system that we have in the United States, to be perfectly honest with you. The flow of credit would come to a halt, even in good times.

Mr. LYNCH. It looks pretty undermined right now. I am just saying we are trying to protect the taxpayers. I understand the principles involved, but these are extraordinary—

Mr. ALTMAN. The only way they could get some precedent for the taxpayer would have new unencumbered assets be put up as collateral. And then the question is what is the value of those. A lot of those are intangibles and would have some trouble convincing me that you are going to get your money back in a short period of time.

Mr. LYNCH. Mr. Chairman, can I have one of the other witnesses—Mr. Sachs, you have a—

Mr. KANJORSKI. [presiding] Very quickly.

Mr. LYNCH. Professor Sachs, do you want to take a crack at that?

Mr. SACHS. On the seniority question, well, I actually wanted to respond to the other question, which is that we should not plan for failure of sticking at 10 million units per year, which is where the economy is right now. I don't find the recovery scenario unrealistic in the same way. We have to plan for a macroeconomic recovery, and this is part of it. And there will be a macroeconomic recovery, and by doing this it will help it considerably. This won't happen in 2009, but it will happen in 2010, 2011, or 2012. We have gone from 17 million units down to 10.1 million units. We are not going to stay at 10.1 million unless we do everything wrong right now.

Mr. LYNCH. Okay. Thank you, Mr. Chairman. Thank you for your forbearance.

Mr. KANJORSKI. Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. Dodaro? Am I pronouncing that correctly? Sir, I am going to exclude you from my questions. And believe me, it is not because I love you any less than I love the others. But I do have questions for your colleagues who are with you today.

My first question is, given that we expended \$85 billion plus an additional \$37.8 billion plus an additional \$40 billion—depending on who is counting, between \$112 and \$152 billion thereabout—to bail out AIG, was it in our national interest to do so? Let us have Mr. Altman address this first, please. Was it in our interest to do so, our national interest?

Mr. ALTMAN. I think it was in our interest to bail out—

Mr. GREEN. That will be sufficient. I only say this because time is of the essence. I still love you. I want to hear more. But it was in our national interest to do so.

If you concur with Mr. Altman, and you believe that it was in our national interest to bail out AIG and to have \$306 billion thereabout in guarantees for Citi, if you think that it was in our national interest to do so, would you kindly extend a hand into the

air? If you think it was in our national interest to do so, in the national interest of the United States of America.

All right. I think we have all hands, except one.

Am I to conclude, Mr.—is it—I can't quite see the name as well as I should. Do you differ, sir?

Mr. ROHATYN. I beg your pardon?

Mr. GREEN. Do you think that it was in our national interest to bail out AIG?

Mr. ROHATYN. Yes, I do.

Mr. GREEN. So everybody agrees. All right. Thank you.

Now to the next question: Is it in our national interest to bail out the auto industry? Is it in our national interest? In you think so, kindly extend a hand into the air.

Everybody agrees that it is in our national interest to do so. Thank you. You may lower your hands.

If it is in our national interest to do so, do you think that indecision is going to be a decision that will impact our national interest? If you do, raise your hand. Indecision will be a decision that is going to impact us.

Thank you very much. All hands, for the record, were raised.

And do you agree that indecision will ultimately become a decision that is going to be to the detriment of the national interest of the American economy, the national interest of the country? I don't mean to be so elementary, but this is a good way for us to get a message to the American people.

Okay. It appears that we seem to think that we must do something to take care of the auto industry. After all, France is going to do it, Japan will do it, China will do it. Countries protect their auto industries.

The question is, will we allow ourselves to become victims of what Dr. King called the paralysis of analysis? We can literally analyze this to death. We did not analyze AIG to death. Someone took bold, decisive action. That bold, decisive action, whether we admit it or not, has provided some stability in the financial markets. It really has. Sending a clear and concise message makes a difference. At some point, someone in a very high office has to send a clear and concise message we are not going to sacrifice the American auto industry.

Now, they have come in and they have done everything except roll over and play dead, and I suspect that if we had said, would you be willing to roll over and play dead, somebody would have literally rolled over and played dead. I think they are willing to make whatever concessions we can concoct. And we ought to have strings attached, we ought to do everything that we can to make sure that the American taxpayer is protected, but the truth of the matter is, we must act. This is in the interest of the American people. More importantly, said another way, it is in our national interest.

I think that at some point this talk about Chapter 11 and Chapter 7 is going to put us in a position where we are going to bankrupt the American dollar. Now, this is where I—my time is up, so I will simply close with this: The full faith and credit of the American economy is based upon the full faith and credit of the American dollar. We are playing with fire. We are playing with economic fire.

Thank you. I yield back.

Mr. KANJORSKI. Thank you, Mr. Green.

The gentlelady from California, do you have something to submit for the record?

Ms. WATERS. Thank you very much. I would like to submit for the record a letter from John Lewis relative to the small dealerships, and also an article from the New York Times entitled, "Auto Dealerships Teeter as Big Three Decline."

Mr. KANJORSKI. Without objection, it is so ordered.

Mr. Cleaver.

Mr. CLEAVER. Thank you, Mr. Chairman.

I would like to say amen to the sermon by Bishop Al Green. I do think that he said it all and did it quite eloquently. I just appreciate your participation here. Very good reflexes.

The issue that I am concerned about is waiting, and I do think there is a difference in how we handle Wall Street and how we are handling our automobile industry. I get that all things come to those who wait. Sometimes, though, it is just leftovers from the fellows who got there first, and this is where I think we find the automobile industry.

One of the issues that I would hope that you could help me understand and deal with—I have two automobile plants in my district, in Missouri, Kansas City, Missouri. If we don't act equally fast for GMAC and for Chrysler financing, it won't matter if we can make cars if we still don't have the capacity to buy them. So I would like for you to—if I am off base, if you would help me. And if I am, support me.

Professor Sachs. And thank you for being here again.

Mr. SACHS. Thank you. It is always an honor to be in front of this committee.

We absolutely need first to make sure that these companies don't go into default in the next week, or in 2 or 3 weeks, and second, that we spur demand again. There will be many parts of that next year. Part of it will be automobile financing turned back on, because it is off right now, as you know very well. Part of it will be the overall stimulus program. Part of it will be TARP and its successors working more effectively. So the demand side and preventing this disaster which—where delay is risky are the two goals that we need to put together.

Mr. ALTMAN. I would endorse the need to move quickly. My fear is that if we move and we do it with a Band-Aid or two, I know \$4 billion doesn't sound like a Band-Aid, but we are going to come back very soon to ask for a lot more, and then more, because this recession is not going away in 6 months. So we have to be prepared for that. And I agree with Jeff that we need to have a fiscal stimulus after the new Administration comes in to get demand going again, and so that is part of the package.

Mr. CLEAVER. My final question: Someone unfortunately brought up subprime loans in the automobile industry this morning, which was just unfortunate that someone would do that. The economy is not in trouble because we have had foreclosures on Cadillacs or Chevys. But do any of you see anything wrong with—in any agreement also making sure that to get an automobile loan, your credit

score doesn't have to be 700 or 750? I mean, we may need—yes, yes, Mr. Lester, I am sure you can respond to this.

Mr. LESTER. I think that is what the problem is now. The requirements that the financial institutions as well as the captives have put on the consumer, no one has the ability—very few people have the ability to have a 700 FICO score to go out and buy a Ford Focus, for example. We are in an economic disaster, and we can't afford for these manufacturers and dealerships to go away. This country can't take it. You already mentioned that if we go away, the dollar will disseminate.

Mr. CLEAVER. So do you think that something like this should be included in any agreement?

Mr. LESTER. I think TARP loosening up, making the announcement a week before last about loosening and providing access for capital to lenders for auto loans and student loans, that is hopefully—once it gets up and running, it will—

Mr. CLEAVER. What I am asking is, should we have a de-icer amendment?

Mr. LESTER. Yes.

Mr. SACHS. I would not suggest it. It would overburden this specific action right now. This has to be a priority for the next Treasury Secretary. That is for sure.

The CHAIRMAN. Thank you.

Let me just say—I am going to ask for unanimous consent for about 90 seconds. I noticed Mr. Rohatyn had a comment he wanted to make, and just given his experience, I want to ask him if he had something he wanted to add.

Mr. ROHATYN. Yes, Mr. Chairman, I do. I think it is terribly important that there not be any—

The CHAIRMAN. You are cutting in and out.

Mr. ROHATYN. I think it is terribly important, because people are going to be listening to what comes out of this meeting, and what comes out of the other meeting, whether there is any hope for these companies or whether they are being condemned to death, which would be a terrible thing for us, and I think somehow, somewhere, somebody has to put out some kind of a release or information with respect to the commitment to the industry among the political leadership in this country.

The CHAIRMAN. I have been asked—and I think it is a fair point. I have been trying not to say much, because when you are trying to work things out—let us just say the better—in advance, but I have been struck by a pretty broad consensus here that something should be done. There are only a couple of Members who took a fairly strong position saying free enterprise being what it is, don't do this. Now, that doesn't necessarily get us there, but I think if you are listening, we have gotten to the question of how to do this. I think the majority of this committee appears to me to have resolved the question about whether the answer is "yes." It is not a guarantee of success, but it clearly is a step forward.

The gentleman from Colorado.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

And, Mr. Rohatyn, that is exactly where I was going to go. Three weeks ago when the automakers came to this committee, they didn't present us with much that we could get our arms around.

It wasn't very helpful. Today the information, their business plans, are much more substantial, and much more professional. Obviously painted a bleak picture for today, but a much brighter picture given restructuring for a year, 2 years, 3 years down the road. The technological leaps that they are making with respect to batteries and the like really do benefit us as consumers and us as a Nation going forward on an energy basis.

And, you know, just back in Colorado, I have to deal with people on the street. So I have to ask three questions. One, is the domestic auto industry essential to this country, meaning, if it were to fail, would the damage be too great for us to sustain over a reasonable period of time? Two, is there a way in the short run to maintain these companies so that they are competitive and successful in the long run? And three, can we substantially protect the American taxpayer in maintaining the domestic auto industry?

And I think the answer is yes. And I think it is a combination of things that Professor Sachs is saying, Professor Altman and you, Mr. Rohatyn. It may not be that we do a Chapter 11, because I have a lot of experience in that field, and it just takes too long, and there are different hurdles and judges and things you have to deal with. But we need to have something that provides powers to an oversight committee or to somebody to do the restructuring necessary with all of the interest holders in here, the bondholders, the shareholders, the management, unions, retirees, the lenders, the suppliers. I mean, everybody has to take a hit in this deal. So you can't do it without some sort of law in place to do that.

And then—and I disagree with you, Mr.—Professor Altman, the taxpayer can be assured of a senior interest in this situation. And that is what I believe. If, in fact, we are going to be the lender of last resort, as you suggested, then we must act like a lender of last resort and make sure that our investors, the taxpayers, are protected to the nth degree if we can do that.

Mr. ALTMAN. I disagree. You cannot be senior to existing loans that have collateral. You can be senior to the unsecured, yes.

Mr. PERLMUTTER. If we were to take a Chapter 11, we could have a priming loan. I am not suggesting a Chapter 11. In a Chapter 11, you can have a priming loan that is senior to any other interest.

Mr. ALTMAN. Absolutely.

Mr. PERLMUTTER. And I don't know why we couldn't do that otherwise.

Mr. ALTMAN. You would have to pass new legislation.

Mr. PERLMUTTER. Right.

Does anybody else want to respond?

Mr. ALTMAN. Which would be a massive request, Congressman.

Mr. PERLMUTTER. And why?

Mr. ALTMAN. Because you would be changing the whole capitalistic system.

Yes, you would, Jeffrey. You would be putting existing creditor capital at risk at any time that the government could come in and take a senior position above existing capital. That is what happens. In other countries, when that happens, you lose the capital.

Mr. PERLMUTTER. But you can do that in Chapter 11 now?

Mr. ALTMAN. That's correct, and that is the only place you can do that.

Mr. PERLMUTTER. But we are asked to come in with \$34 billion in an emergency to keep these companies afloat so they can get to the brighter future. I have to protect the taxpayer from something that might happen here.

Mr. ALTMAN. Well, I do believe you can do a lot to get a senior status in this loan. One way to do it is to get the existing creditors to go away and take equity. And I think General Motors is making that plan. I think that is a good idea. And then you don't have to worry about them; they take equity in place of the debt. Then you can go in and be senior, and there is nothing wrong with that.

But just to force it down them, I think that would be a mistake.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

The CHAIRMAN. Well, take that—I remember when the press office said you can only do that as a Chapter 11. That is true if you are a lawyer arguing in court.

You are now before the body that wrote Chapter 11 and it can rewrite Chapter 11. And there is a problem that lawyers have, which is to assume in the normal course of a legal argument you are restricted to choose between column A and column B. We can write column C third. So the answer is, it would not necessarily be that we mandated people to do things, you can come up with constitutional issues with that.

But the old doctrine of unconstitutional conditions on gifts seems to me have long since disappeared into the mists. And if we are going to vote all that money, we can put on it any conditions that we think appropriate, so we are not restricted to either Chapter 11 or not. We can write what we think is appropriate with these powers.

The gentleman from California.

Mr. SHERMAN. Thank you, Mr. Chairman.

I think these hearings show that we ought to pass a bill. Our best chance to pass a bill is to write one that has tough standards to protect consumer warranties, to make sure that the U.S. Government is involved in deciding which plants get closed and which stay open, and to deal with executive compensation and perks and deal with a number of the other issues that have come up.

Clearly, everybody has to give something. Now, the shareholders are going to give. We are going to dilute them if we get sufficient warrants. And if time permits, I want to ask the witnesses about how many warrants that ought to be.

The executives—I think I join several of my colleagues in torturing them, and that is just a taste of what we would like to put in the bill. The unions have made substantial concessions, and have indicated they are going to make more. But we have been talking here about the creditors, and not just making the loans senior, our debt senior to theirs, but to actually write down the liability.

Right now, people are buying GM debt for 15 cents on the dollar; and if everything goes swimmingly—should they get a dollar on the dollar if things go swimmingly, only because the taxpayers ride to the rescue—Professor Altman, do you see a way not only to make the taxpayers' debt senior but to actually provide for a reduction

in the amount that GM, for example, has to pay on its unsecured debt.

Mr. ALTMAN. Yes. What you are referring to is something known as a “distressed exchange,” and the creditors are offered, let’s say, 20 cents on the dollar in new securities, equity, preferred stock. And they have to evaluate whether or not it is to their interest to do so.

Mr. SHERMAN. So this would only be voluntarily. Is there any way for us to write a statute that makes it mandatory?

Mr. ALTMAN. Well, as Chairman Frank said, you can do whatever you want.

Mr. SHERMAN. I am a little concerned about the takings clause.

Mr. ALTMAN. I wouldn’t recommend that. It is much better. And I think GM has a good plan in that respect to write down the debt. \$30 billion, I think, was in their plan to reduce it; and I think that makes sense. But I ran it through my model, and they still come up a bankrupt entity even after doing that.

Mr. SHERMAN. Mr. Sachs, a new line of questioning: Let’s say the doubters are right, and all we can do is give a transfusion to a patient who is ultimately going to expire with regard to GM and Chrysler. One of the things about a business cycle is that companies fail at the very time that other companies are failing. It would be nice if we could arrange it so that companies only fail during good economic times.

How much higher will our GDP be if we do nothing but delay the dissolution of GM and Chrysler by 12 months.

Mr. SACHS. Very, very slight. And that certainly can’t be the goal of this exercise.

Mr. SHERMAN. So if we were to spend—

Mr. SACHS. This would not be the right way to do capital spending.

Mr. SHERMAN. If we put in the money, one of the reasons to put in the money is maybe the companies will survive.

Mr. SACHS. I would say more than a good chance.

Mr. SHERMAN. Another way to put in the money is, maybe we can delay by 12 months their failure to survive.

You are saying that second objective is of slight value to the United States?

Mr. SACHS. I think that’s right. It would be marginally present, but that can’t be the point of this exercise. But I would not be so pessimistic to think that there isn’t a trajectory out of this. That is the whole point.

Mr. SHERMAN. I just started with a worst-case assumption. I am not asking you to embrace it.

Mr. SACHS. Absolutely.

Mr. SHERMAN. Mr. Rohatyn—if I am pronouncing that correctly—the chairman’s draft calls for us to get warrants with a value of 20 percent of the money we are putting in. And the question is—I mean, these are companies you could buy the whole company according to today’s values for \$2 billion, \$3 billion, \$4 billion, and we are talking about putting in \$34 billion. When you use the standard approaches used to value warrants, would we end up, if we exercised the warrants, owning well over 90 percent of the out-

standing shares if you looked at what the value of the warrants would be?

Mr. ROHATYN. Well, I think that you certainly would try not to wind up with 90 percent of the equity of the company.

Mr. SHERMAN. I would disagree with you. If we are taking 99 percent of the risk, I hope we do end up with 90 percent of the company. And if the shareholders don't want to take that deal, they can seek money elsewhere.

I yield back.

Mr. GREEN. [presiding] Thank you.

Mr. Manzullo is recognized for 5 minutes.

Mr. MANZULLO. Thank you, Mr. Chairman.

I am sorry I missed your testimony. I was working with two small manufacturers trying to keep them afloat during these times of crisis.

My question goes to the \$25 billion that has been set aside already. It is actually \$7 billion because, I think it was the CBO said that they estimated at 20 percent of default. So, therefore, \$7 billion has been parked in order to guarantee \$25 billion in loans to the Big Three for the process of retooling.

And my question would be, at least at this point, based upon the testimony of an immediate need, why not use a portion of that to keep these companies going, and then revisit the bigger issue sometime in March or whatever period of time they said the instant money would not be available? And all that would take—and I think there are votes in both Houses—would be to have a simple amendment saying that this money—I think what is called “136 money”—whatever it is, could be reprogrammed for meeting general operating expenses.

I would like to know your thoughts on that, Mr. Friedman.

Mr. FRIEDMAN. Well, I think one of the flaws with that plan is, if you looked in the companies' plans, they are already depending—they are already expecting that money as part of their recovery plans. So maybe there is an argument—in fact, I think there is an argument—to find ways to accelerate getting them that money under some of the same conditions they were already going get the money, such as a 25 percent improvement in fuel economy.

But they need additional money is what they are asking for. They are already expecting that money.

Mr. MANZULLO. They probably won't get it.

Mr. FRIEDMAN. Additional money or the base money?

Mr. MANZULLO. Well, the additional money. This Congress is very reluctant. If this is emergency money, let's put it this way, if you hear at least Chrysler and GMC, they won't be around in 30 days even to worry about that 136 money. So why not use a portion of that to keep them afloat? You can always come back and add to the pot if it is necessary, and some people would vote for that, to replenish the original \$25 billion for environmentally new cars.

Mr. FRIEDMAN. Well, I think no matter what you need to find a way, even if you move the money forward, you need to find a way to preserve the fact that the money is supposed to go towards advanced technology.

Mr. MANZULLO. How can you preserve it if the company is out of business?

Mr. FRIEDMAN. I think the first step is making sure they are going to be sustainable businesses. But you would be mortgaging their future if you did not require them to invest in—

Mr. MANZULLO. They don't have a future based upon what they said unless they get billions of dollars up front. So why not use that money that is already there to fix the roof that covers the area where the R&D is going on with the new cars?

Mr. FRIEDMAN. I would argue to accelerate that money under the same conditions, and I would argue—I think the panel has discussed that there are two other sources for that money. We have to make sure that these companies, as Professor Sachs said, are planning for an macroeconomic recovery. And in a macroeconomic recovery, gas prices are going to shoot up as China and India and the other countries start guzzling gas more. And these companies are going to be in trouble again if a—

Mr. MANZULLO. I can't agree with what you are saying because what you are saying is that it will not come to pass if they have no money to keep on going.

Professor Sachs.

Mr. SACHS. Congressman, I think using the section 136 as part of this is appropriate, in my opinion. But quantitatively, I think it is likely that this will need to be part of a package that includes some of the TARP.

I think the Fed can do some things on its own, by the way. And this is one of the missing actors here. I would like Chairman Bernanke to step up and help this process more than has been the case so far, because they are making loans that are a lot riskier than this one.

Mr. MANZULLO. The problem is that the the plans are woefully insufficient.

Mr. SACHS. No. They could be doing this on terms that are better than what they are doing right now and are appropriate for preserving our financial system. So TARP, section 136, and the Fed offer three ways, and it is going to have to be a package. If it is only a very narrow, constricted, begrudging amount, then, Congressman, you will not succeed in your objective, I am afraid.

Mr. MANZULLO. Anybody else?

Mr. ROHATYN. I think Professor Sachs is absolutely right. I completely share Professor Sachs's views. Either we do this on a large scale or just there is no point to it.

Mr. MANZULLO. I mean, the plan isn't there. You have GMC that wants to go into the—GM wants to go into the commercial banking business, which I think is absurd. So to pull out of the doldrums and to correct our mistakes based on making automobiles, we are going to go in the commercial banking business.

No one has ever done an analysis of the impact that that will have on community banks, credit unions, and on national banks that have local branches across the country. But that is part of their plan.

The union people sit here—Mr. Gettelfinger sat there, and I thought he had a pretty reasonable approach. He says, "Yes, we are here. We are willing to sit down." There has been no viable plan that has been presented to this Congress in the details that are necessary to warrant that type of money.

The CHAIRMAN. The gentleman's time has expired.

Mr. MANZULLO. Thank you, Mr. Chairman.

The CHAIRMAN. Do we have any other members?

Mr. Foster, are you next?

Mr. FOSTER. One number that I think is absolutely crucial, and I would like to see developed by an entrusted third party, is the total value of GM's unencumbered assets, and that could be used as collateral either by DIP financing or some sort of prebankruptcy financing, and to compare that to the capital injection you are going to need for return to viability.

And that is the fundamental number that I think this whole discussion depends on. And I would be interested in knowing who it is that we can trust to develop this number.

Mr. ALTMAN. I think you would have to get an outside party. I don't think you could trust the companies in this case. And any of us—looking at their financial statements would be very difficult to understand. You would have to value every one of those assets, both tangible and intangible. And I do believe they have unincumbent assets. But can you get, for example Opel in Germany, can you get the German government which has a stake in this, too, in providing money to Opel under certain conditions, can you be able to transfer that equity to a lender here?

It is a very good question, an excellent question, and one that I was wrestling with myself in trying to prepare the testimony.

Mr. SACHS. Congressman, I don't think with all due respect that it is really the question for this weekend or before you recess or before the new government comes in. This has to be viewed practically as a two-part process. You have a basic framework that has been put in front of this committee, which I find very valid and very credible and absolutely worth the American people investing in.

Then we are going to have a new government that is responsible for helping to answer a lot of these questions. We don't have, with the outgoing Administration, the capacity to do these things right now, but we are going to have a new government. In 6 months' time you will get a lot of answers. And it is important—even in a month-and-a-half's time, you will get a lot of answers that you will not get right now.

I think, therefore, pragmatically, because these decisions really are needed in hours—day two, you are leaving town—that putting in the kinds of protections that are in your draft legislation, I think, is appropriate. Assigning oversight responsibility to the Cabinet, ministers of departments of the incoming government are completely—and of the outgoing government, for that matter—are completely appropriate.

But fine-tuning, in my opinion, is not commensurate with our macroeconomic reality. Last week, \$306 billion was thrown over something without 1/100th of what you are asking for right now in scrutiny because events are moving at trillions of dollars very, very fast.

And I think it is important that we understand the macroeconomic crisis that we are in, and that the American people understand the macroeconomic crisis we are in. This is not normal, what is happening. This isn't even normal about a difficult situa-

tion for the auto industry. This is a global macroeconomic crisis unprecedented since the Great Depression. And so we have to act with the speed that is imperfect in answering a lot of things, but it is realistic to the circumstances that our country and the world face.

Mr. FOSTER. It seems to me that the long-term issue that we are dancing around is that the problem here is declining market share. And the reason for that is, it is fundamentally less expensive to produce cars and components in developing nations. You can get a good engineer for \$10,000 a year in India and \$2-a-day factory labor in China, and they can be trained to do a decent job of assembling quality cars. The only way to preserve the car industry long term is to acknowledge that we have a national security in preserving a self-sufficient automobile industry, and that nothing short of some combination of tariffs, nontariff barriers, subsidies or repeated capital injections—which is sort of what we are doing here—nothing short of that sort of thing is actually going to do the trick to make a long-term, stable automobile industry here. And I think that sometimes gets called a national auto policy. But it is pretty much what it comes down to.

Mr. SACHS. If that is a question, Congressman, I would disagree with that.

Mr. FOSTER. What is wrong with it?

Mr. SACHS. The auto industry in the long term is a growing industry. There will be actually hundreds of millions of new vehicles when the world's middle-income countries continue to achieve economic growth. Our industry has a chance to be a technological leader. We can make breakthroughs. They have been long delayed because our pricing policies, our national policies on this, have not been what they need to be.

It is not only the industry. It is the choices we made as a country politically, personally, and the company that has led us to a situation where we are. But we are on the verge of developing leap-frog technologies. This is the absolute truth, whether it is fuel cell technologies or plug-in hybrids, these are major, world-class companies we are dealing with.

The CHAIRMAN. The gentlewoman from California.

Ms. SPEIER. Thank you, Mr. Chairman.

Thank you all for participating. I have two trains of thought that I would like to pursue. One is around demand. All of this to me makes no sense at all if we don't create a demand for these vehicles. And the American people right now are damn mad. They do not want us to bail out this industry. And if we then pump tens of billions of dollars into this industry over the course of the next 6 or 8 months, and the American people continue to be angry about that, they are not going to buy the cars. So where are we?

Mr. SACHS. Congresswoman, they are mad that unemployment jumped to 6.7 percent today and 560,000 jobs were lost. They are going to be very mad when unemployment reaches 9 percent. They will be really mad if unemployment reaches 12 percent. If we allow the most important industry in this country to disintegrate, believe me, the fury will be nothing like what will happen when they hear about a \$25 billion bailout.

We have to take the macroeconomics seriously right now. We are in the steepest descent we have been in in modern times. It is crucial to stop this. So the American people need to understand this isn't a favor for the industry, this is a favor for the American people. That is the most important thing they need to understand. This is to break a collapse of our economy that is under way right now. And this can be understood.

Ms. SPEIER. All right. Let me ask you a further question.

Does it make sense—and this is a question for any of you who would like to answer it—for us to create a tax credit so that American motorists go out and buy cars that American manufacturers build that get more than 30 miles per gallon?

Mr. FRIEDMAN. Congresswoman, we have actually been working in California for a plan very much like that, based on vehicle emissions, where if you purchase a vehicle that gets improved emissions, you get a tax break from the government. That will encourage people to buy better vehicles, it will encourage more competition in the industry. And right now when we are in the world of a fiscal stimulus we can probably afford to just do that part of it.

Now, in the long run, you want to add a financing portion of that, and that is some sort of fee for vehicles that pollute too much and use too much gas. So I think this is an opportunity again to take some of the policies that are being formulated in California and move them nationally.

I also think we have other opportunities to stimulate demand and to deal with the fact that, as gas prices go up, people are also going to be looking for alternatives to cars. We have a lot of truck plants that build vehicles that have body-on-frame construction. You can start moving some of these plants over to rail, over to buses. We can revolutionize our transportation industry while stimulating our economy.

So this is a down payment. We need a whole other conversation about a broader macroeconomic stimulus to get consumers buying, but also get consumers options other than cars.

Ms. SPEIER. Thank you.

Now, the other train of thought: Cerberus really troubles me. They paid \$7 billion for Chrysler, and now they want \$7 billion as part of their rescue. And they have just stripped Mervyn's of all its real estate, and now 30,000 employees of that company are on the street because they are liquidating.

They are a private equity firm. We don't know anything really about their holdings and what they have done to Chrysler or how much money they have already taken out of Chrysler. I don't understand why we should be bailing them out.

Comments?

Mr. DODARO. I think that in that particular case, there needs to be a really high threshold and representations that credit is not available in other sources before the government moves in. This is why I think that there needs to be a Federal guardian. There needs to be somebody asking for additional information before the Federal Government makes that decision. Not that we go around with a particular point of view, but you need more information. And I think you need a greater degree of representation for the reasons that you mention.

Ms. SPEIER. Thank you. I yield back.

The CHAIRMAN. I thank the panel.

And responding again to Mr. Levin, let me leave people with a two-part question: Should we do something, and if so, what should we do? There is a lot more agreement that we should do something, unless the President apparently today called on us once again to make the \$25 billion from the energy efficiency part available in ways that many of us disagree with because it would too greatly loosen those.

And I think it is fair to say that the job report today, this disastrous job report, has heightened the interest in doing something.

The one thing I will say is that it is obviously going to be incumbent upon us, given the wide recognition that it is important to do something, we are going to have to have some give here; and if we are lucky, we will come out with a bill next week that nobody likes. Because any bill that any individual liked couldn't pass.

But—there is a sufficient consensus that we have to do something, but I hope we will get something acceptable to enough Members of both Houses so we will avert disaster.

I will just repeat—and Mr. Rohatyn said it might not be popular—one of the things we have learned is, if we didn't know it before, averting disaster is no basis for a political campaign. If you do something good, people are happy. If you avoid something bad, people are not happy.

One thing—and I have to say to my friends, the economists here, on whose judgment we rely a great deal; and they understand this—there is one very important metric in economics which is a disaster in politics, that is, reducing the rate at which something bad is happening. That can be a sign of real success in a public policy term. Any politician who goes and takes credit for saying, yes, things are really bad, but boy, would they have been worse if it wasn't for me, perhaps should study to become an economist because he or she will need an alternative profession.

But I believe—and I am encouraged from talking to my colleagues informally as well as formally—there is an understanding that we have to work together. There are a lot of ways to do this. No one can be certain, but I have some more optimism than I had before that we will get ourselves to a point in a reasonable way until next year, and we will have several months in which we can work on this.

The hearing is adjourned.

[Whereupon, at 3:00 p.m., the hearing was adjourned.]

A P P E N D I X

December 5, 2008

Financial Services Committee Hearing
Rep. J Gresham Barrett
"Review of Industry Plans to Stabilize the Financial Condition of the American
Automobile Industry."
Friday, December 5, 2008

Honestly, I am unclear as to what we are all doing here, trying to evaluate the competitiveness of your business plans and determine whether taxpayer money should be used to save your businesses. I mean no disrespect, but two weeks ago you came here on your private jets, telling us how your businesses were failing and asking the American taxpayer to bail you out. I understand your situation, and I appreciate you are concerned about the jobs that would be lost as a result of your closing your doors. None of us here want to see that happen, but as we sit here, there are countless people all across this country watching this hearing that have lost their jobs. I'm concerned about them too. Just yesterday I read that in my home state of South Carolina we lost 1,000 manufacturing jobs just last month. And I'm sure all those folks are wondering why their company wasn't bailed out, and honestly, I can't blame them. If I were in their shoes, I'd be asking the same question. Like them, I'm wondering why Congress is placing a different value on the auto industry jobs than those of any other industry.

I know there are some that will say that's exactly what we did with the financial industry. I was no fan of what we did in that situation, but what was occurring in the financial industry threatened all industries throughout the nation, because if our banking sector collapsed it would be impossible for any business to succeed. However, this is one industry, and while I know there will be a ripple effect felt in many parts of the economy, I have to question whether it is the responsibility of Congress to save an industry. What do I tell my textile folks back home that have watched their jobs all but leave the nation?

What do I tell the small business owner that is struggling to keep their doors open? That their jobs don't rise to the level of national concern? When did we become a nation of handouts? That is not the American way.

I know these are tough times, but the discussion we are having doesn't make sense. We are sitting here, trying to evaluate the business plans of corporations. But trust me; Congress is no authority on how to spend money effectively and efficiently — the new visitor center is a classic example of what happens when we are in charge — long delays and over budget. And we certainly can't predict the direction of a marketplace. I am concerned that businesses are rightly going to start thinking they can just come to Uncle Sam and he will bail them out. Let me tell you - Uncle Sam is broke.

We are not a bank, and we are not a management consultant. I owned a small furniture store, and the last thing I wanted was for the government to come in and tell me how to run my business. But I am worried we are going down that road. Because we are supposed to ensure taxpayer money is protected and spent appropriately, does this mean the federal government will review your books? Is that what you want? The federal government has to get out of the business of trying to save businesses. Instead, we should be creating an environment where businesses can succeed, not micromanaging the affairs of private industries and determining which businesses fail and which grow.

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OPENING STATEMENT
to the
HOUSE FINANCIAL SERVICES COMMITTEE
U.S. Representative Marcy Kaptur
December 5, 2008

I would like to thank Chairman Frank for allowing me the privilege of submitting my statement to the Record.

The decision of bridge financing for the U.S. auto industry represents a strategic moment for our nation. The current predicament of this critical sector of our economy has been precipitated by the mortgage foreclosure crisis that yielded a severe credit crunch. That condition has put a strangle hold on our economy being felt very directly in the auto industry which is so sensitive to sales. Rather than the U.S. Treasury alleviating the mortgage foreclosure and credit crisis, they are making the situation so much worse it is now infecting other critical sectors of our nation including the automotive industry, the manufacturing spine of our nation.

Maintaining a U.S. auto industry is an imperative not only for economic security, but also for America's national security as a whole. To walk away from this industry at this moment in history would be a mistake of colossal proportion. What is now a recession will devolve to a depression. Already, U.S. unemployment levels stand at 6.7% and in some areas it is approaching 10%. According to the Labor Department's numbers released today, employers cut 533,000 jobs in November and currently more than 10.3 million people are out of work.

No industrial power has ever survived without a thriving domestic auto industry, whose capabilities directly under gird our nation's defense industrial base. Already our defense manufacturing capabilities are being threatened by slipping US prowess in manufacturing—losing our auto industry would only drive the nail into the coffin. Clyde Prestowitz, President of the Economic Strategy Institute and former Reagan Administration advisor, noted in the book *American Theocracy* by Kevin Phillips that the US already relies on foreign technology from countries like China and Russia in four security-sensitive fields: rockets to launch space satellites, Boeing's 787 wings, military night vision capacity, and strategic metals.

Further, the suggestion that the U.S. economy could depend on merely substitute transplant production is a fantasy. Parts integration—which employs twice the number of people as vehicle assembly plants—is not directly substitutional. The entire production platform of both domestic and foreign firms would be disrupted. And even if there were a strategic incentive for automatic substitution, it is not possible. We need to rescue American companies, workers, and consumers.

Economist Jeffrey Sachs noted last month that the industry does not need long-term federal support, only a helping hand, a partnership. Dr. Sachs states that total global auto production increased from 62 million in 2004 to 70 million in 2007. "The current decline of auto sales is cyclical, not permanent," Dr. Sachs wrote. Because credit shortages and rising unemployment have put a severe damper on sales, a bridge for the domestic automakers has become a necessity to tide over our country through this rough patch. However, these companies need more than a temporary loan to rise from the ashes of flawed U.S. economic policies that force them to compete on an uneven global playing field. The world is not flat. It is mountainous and has huge valleys. Our nation must address structural barriers weighing on the auto companies, caused or fostered by U.S. economic policies that put our industry in globalization's crosshairs. Since the 1980's, the US has forced our auto industry to compete on

an unlevel global playing field, subjecting workers, companies, and consumers to inherently harmful global trade and tax policies.

Let us begin with trade. America boasts the most open market in the world. More than half of the cars on our streets are foreign-made. But the countries with whom we compete continue to manipulate and close their markets—directly and through regulatory barriers. Take Japan. It is the second largest auto market in the world, but less than 3% of its auto market is comprised of foreign cars. The same is true with Korea. The auto parts manufacturers—which employ twice as many workers as assembly plants and holds twice as much GDP value—are similarly excluded. Tight knit, Keiretsu supply relationships keep Japanese firms wed to their own supply chain, almost exclusively. In Europe, auto imports are held to 10% market penetration.

The impact of closed markets on US production has been fierce. South Korea is notorious for subsidizing its auto industry. Even getting small amounts of floor space for U.S. dealerships in Tokyo has proven exorbitantly expensive. To gain market access in Japan, U.S. manufacturers were forced to become minor partners with firms like Toyota, or not to play at all. The results of these policies are on display in our 2007 automotive trade balances with Japan - \$52.9 billion, Mexico -\$30.7 billion, and Korea -\$10.3 billion, which are a part of an overall \$120.9 billion automotive trade deficit.

Now, let us address tax policy. The Value-Added Tax (VAT) functions to give foreign producers a huge net advantage on sales. For example, Japan's companies receive an 18% VAT reduction on cars sold abroad, relieving those firms of the social costs of production (health and pension benefits). U.S. cars on export carry the imported value of those costs raising the prices \$5,000-\$8,000 per car. This VAT wall severely harms US product entry while easing the way for foreign cars into American driveways.

Finally, let us address the wage and benefit gap. Our trade relationships encourage countries that pay autoworkers next to nothing—Communist China or in post-NAFTA Mexico—to be placed on an equal footing with U.S. workers who have every right to earn a living wage with health and pension benefits, that is, if America is to build a middle class. It is not a question of whether American workers are paid too much but a question of whether foreign competitors pay starvation wages with no benefit support system. The U.S. standard of living is regressing because we continue to sanction such abysmal practices abroad. To date, labor and environmental justice in trade agreements have not been adequately engaged, but the auto industries of democratic nations will not flourish again until the U.S. holds other countries to the same middle class standards to which we dedicate our society.

Thus, the broader global context in which the U.S. auto industry competes—race -to-the-bottom wages, closed markets, the VAT, and market access laws abroad—operate as huge structural barriers to U.S. competitiveness above and beyond the current credit crisis the industry confronts due to the downturn in the U.S. economy.

Nevertheless, in the short-term, it is imperative that Congress act now to support a responsible plan to open credit lines to this American industry. It is incomprehensible that the

U.S. government effectively wrote a blank check to Wall Street, that has precipitated the current economic woes. Yet it is forcing America's most productive vital sector of manufacturing and the communities which they located—now among the poorest cities in America (Detroit, Cleveland, Toledo)—to jump through hoops to secure survival.

If Congress has rewarded the mega banks and private equity funds, where executives take gigantic bonuses while bilking the middle class surely this nation can extend a loan and necessary lines of credit to a tangible goods producing sector of our economy that builds vehicles as well as our middle class and provides our country economic and national security.

Representative Ron Klein
Financial Services Committee
Review of Industry Plan to Stabilize the Financial Condition of the
American Automobile Industry
December 5, 2008

Mr. Chairman, thank you for holding this hearing. The people of South Florida and citizens all across this country are watching today. They want to know: Are we being responsible with their taxpayer dollars? Will these companies testifying before us be responsible with taxpayer dollars? We must ensure that every penny of taxpayer money is accounted for, and that the auto companies have a coherent, long-term plan not only to survive, but to thrive. It is our job to demand strict oversight to return confidence to the American people and to markets around the world.

Our current financial situation is one of the most serious economic crises that our nation has ever faced. It is the crisis of a generation. We have been told that without federal aid, we would lose nearly two million jobs. That would plunge our economy into a deeper recession and it would take much longer for our economy to recover.

This is not only about the auto companies. This is about every American job that is associated with these companies—the suppliers, the auto dealers, including many in South Florida. We have to consider the implications of the failure of one auto company on the rest of the industry and the rest of America. People's livelihoods depend on us today.

Although I appreciate the efforts of our witnesses, the corporate leaders of the auto industry, in submitting their restructuring plans to Congress, for many people watching today, it is too little too late. It is imperative that we use this as an opportunity to bring the American auto industry into the 21st century. For too many years, American cars have not been competitive. Now, their backs are against the wall and the only way for them to get out of this situation is to shoot for

the moon. The cars they produce must be quality based, fuel efficient and cutting edge. They must set the standard for the world. America must be able to believe in the American car again.

But, we must also learn from the past. The recent Emergency Economic Stabilization Act, which created the Troubled Asset Relief Program (TARP) and is beginning to inject capital into our economy, has a ways to go before we see results in our economy. We do not have the time or luxury to let a new program work out the kinks. In dealing with the auto companies, we must require strict, meticulous oversight and benchmarks of change and achievement before money is handed out. Frankly, we have already committed significant taxpayer funding to assist ailing financial services companies and will not be in a position of allocating federal funds unless we have a coherent plan and oversight measures in place.

Additionally, Congress expects the corporate leaders sitting before us today to take responsibility and make sacrifices. Creating an enhanced management team who understands the challenges and opportunities of what the auto industry is facing today and will face in the future is essential.

My community in South Florida is watching the American Dream slip between the cracks. Many years ago, generations before thought that buying a home and a car would secure their place in America. Now, these Americans are seeing a rise in foreclosures and the threat of the end of the American auto makers. Now is the time for intelligent and well-reasoned action, though it may be difficult and painful to achieve to restore our American Dream.

We can all agree that now is not the time for gridlock or delay, but the time for us to come together to work towards a common solution.

Thank you, Mr. Chairman.

Statement by the Honorable Stephen Lynch

The House Committee on Financial Services

December 4, 2008

Thank you

We're here today for an obviously important reason: We have a major American industry that is telling us it may go under without our help.

This isn't an easy or comfortable position for any of us to be in – whether we are legislators or automakers. But it's also clear in my mind – and I think in the minds of a vast majority of our colleagues – that failure to find solutions, and now, could be nothing less than catastrophic not only to this one industry but to the many others that are dependent, in whole or in part, on the fate of American automakers.

One of those is also one of America's oldest industries – the U.S. machine tool trade. According to AMT – the Association For Manufacturing Technology, nearly a third of its more than 400 machine tool and manufacturing technology members have a direct stake in what happens to the auto industry.

Ford, GM and Chrysler employ and support more than five million jobs in the United States, the bulk of which are companies such as those AMT represents that are dependent on automakers as customers. In fact, a third of all dollars spent in the United States on manufacturing technology is spent by automakers.

My home state of Massachusetts has important manufacturing technology companies. And they are critical to America's manufacturing infrastructure as well as to our defense industrial base. So when we talk about helping bolster and buttress our U.S. automakers, we're also talking about preserving other companies in other industries – and their millions of workers – that are truly irreplaceable.

I hope this committee, and this Congress, can move reasonable, sound legislation quickly that can respond to not only the needs of our three Detroit automakers but to the millions of other U.S. jobs that are at stake in this issue.

Thank you

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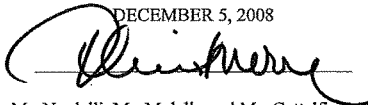
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STATEMENT AND QUESTIONS FOR
THE HOUSE FINANCIAL SERVICES COMMITTEE HEARING

"REVIEW OF INDUSTRY PLANS TO STABILIZE THE FINANCIAL CONDITION
OF THE AMERICAN AUTOMOBILE INDUSTRY"

REPRESENTATIVE DENNIS MOORE [KS-03]

DECEMBER 5, 2008



Thank you Mr. Wagoner, Mr. Nardelli, Mr. Mulally and Mr. Gettelfinger for your testimony this morning. Before I get to my questions, it is clear to me, if the federal government fails to act to support our automakers, our country risks going from a recession to something worse. Republicans and Democrats should not use this grave situation to play ideological games when as many as 3 million jobs are at stake, including thousands of workers in my district.

Former supreme allied commander of NATO, General Wesley Clark, recently wrote in an op-ed that this is "a historic opportunity to get it right in Detroit for the good of the country. But Americans must bear in mind that any federal assistance plan would not be just an economic measure. This is, fundamentally, about national security."

To the three CEOs, I believe you learned an important lesson a few weeks ago when you came before this committee with no plan and your hands out for an emergency loan. And to the hard working men and women of the UAW, I commend your willingness to step up to the plate and offer concessions as well. We are all in this together, and the sacrifices should be shared.

**Opening Statement Submitted for the Record
Rep. Ed Perlmutter (CO-07)**

Three questions determine whether federal assistance should be made available to the domestic auto industry. If the answer to these questions is yes, the Congress should immediately act.

1. Is the Domestic Auto Industry essential to the welfare of the United States of America?
 - The corollary is, would the loss of the Domestic Auto Industry be too damaging to the country?
2. Is there a way to maintain these companies in the short run so they are competitive and successful in the long run?
 - The corollary is, is there a way forward that does not result in good money being thrown down the toilet.
3. Can the Congress, through Constitutional legislation, protect the American taxpayer in maintaining and sustaining the domestic auto industry?

The companies' testimony and business plan presented several weeks ago did not instill much confidence or desire to assist them. The proposals presented for this hearing are more complete and professional. They also admit and acknowledge reality. By doing so they are taking the first step toward recovery.

The proposals paint an economic picture that currently is bleak, but they also describe actions which have been taken or which can be taken to create a much brighter, successful and profitable future, including developing technologies which create fuel-efficient 21st century vehicles. However, based upon the business proposals, it is clear that without immediate financial assistance from the only entity lending money, the USA, the domestic auto industry will never get to the successful/profitable future.

So, if the industry is essential to the country because of jobs, national security, and desire to limit the misery attendant to widespread unemployment, then how do we give the industry the best chance to succeed and assure the protection of the taxpayers as lenders and venture capitalists? The Congress needs to develop legislation that either allows or forces, where necessary, concessions from all interested parties, including lenders, suppliers, unions, management, retirees, dealers, shareholders, and boards of directors.

The legislation must place any federal loans or advances in a first and senior position to all other parties and it could provide for an oversight board similar to that suggested by GM in its proposal to manage and protect the federal funds and assist the companies in returning to the profitability and repaying the taxpayers.

PETER J. ROSKAM
6TH DISTRICT, ILLINOIS

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December 5, 2008

Chairman Frank, Ranking Member Bachus,

Thank you for holding this hearing today, and for providing this opportunity to thoughtfully engage the issue of a possible auto bailout.

I represent a district that is greatly invested in the auto industry. Illinois' 6th Congressional District is home to many auto company suppliers and, of course, dealers. We know what a vibrant domestic auto industry means to this country.

Frankly, we don't know what the other side of a bailout would look like for suppliers, dealers, and the auto companies as whole entities. We don't know, but we have been told that there is a great urgency, one that requires immediate action.

Today I offer a word of caution. We have seen this urgency before and it was just two months ago. The only way to keep our financial system and way of life from collapse, we were told, was to purchase \$700 billion worth of "troubled assets." It turns out that was not the case; the effort shifted focus and the asset purchase program never got off the ground as it was proposed.

It is my hope that the conversation before the committee today will move us away from the false choice of spending billions of taxpayer dollars or facing an economic free-fall following bankruptcy. Of course, these are not the only options. Given the extraordinary circumstances, a bankruptcy, or more appropriately a restructuring, does not have to take the form of the Congress pushing the auto companies out the door to go stand in front of a bankruptcy judge. Rather, a thoughtful restructuring that reestablishes a viable and competitive domestic auto industry primed for growth is an option that would insulate taxpayers and protect against traumatic economic uncertainty.

Today it is unclear whether all options and alternatives have been exhausted. This is most evident in that just two days ago – after the auto companies had submitted their "plans" – the UAW announced that it would allow the auto companies deferral of payments to their VEBA, and that the "jobs bank" would be eliminated. Further work is being done in the industry even after the UAW had said it had done enough.

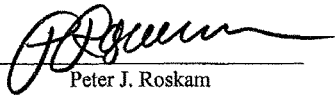
There are still more steps that can be taken before we ask the taxpayers to shoulder the burdens of these auto companies. For example, why not replace some of the auto companies' VEBA debt obligations with equity stakes in the companies? We could eliminate some of the burdensome

debt and allow the UAW to benefit from the upside of any recovery. Cerberus has tremendous private resources; why is Cerberus not willing to push in more private capital to Chrysler?

If we proceed with a bailout, we run the ironic risk of further hampering the auto companies' ability to shed debt. In a restructuring effort, debt holders will likely be willing to take a haircut on their debt. They will take the haircut or won't get paid. With auto companies standing with the backing of the federal government, debt holders will not be so willing to negotiate down and instead will leave American taxpayers to absorb the cost. Additionally, the auto companies have expressed trepidation about defaulting on their current debt if the federal government were to insist on priority in debt repayment. Taxpayers absolutely should be afforded the right to be repaid first—of course, in a bailout scenario, without the taxpayers the subordinate debt holders would get nothing.

We have been told that urgency requires immediate action, but we seem to stumble from one week to another without a cohesive plan. Just two weeks ago the request was \$25 billion, and today it is \$34 billion. UAW concessions were being offered even after the auto companies submitted their "plans" to return to profitability. Private capital remains on the sidelines, and taxpayers are being asked to take a back seat to debt holders that might not otherwise get repaid.

So, I offer a word of caution today. In my view, we lack the clarity about the consequences of action or inaction, or some alternative action, to prudently act on behalf of the taxpayer. The last two months have shown us that even in extraordinary times, the sun continues to rise. To respond well to the urgent, a sense of clarity is required. We lack that now, but I look forward to the work ahead of us in restoring a stable economic foundation.



Peter J. Roskam
Member of Congress

**Testimony of Dr. Edward I. Altman before the House of Representatives Committee on
Financial Services' Hearing on "Review of Industry Plans to Stabilize the Financial
Condition of the American Automobile Industry"**

December 5, 2008

Mr. Chairman, and distinguished members of the Committee, my name is Dr. Edward Altman and I am the Max L. Heine Professor of Finance at the New York University, Stern School of Business and Director of the Credit & Debt Markets Research Program at the NYU Salomon Center. It is an honor to testify before the House of Representatives Committee on Financial Services today. I have been a Professor of Finance at the Stern School at New York University for 41 years and my areas of teaching and research concentration are corporate finance, bankruptcy and reorganization and managing credit risk. I am also an Advisor to several financial organizations in the investment management, financial markets and credit risk areas and to publishing and financial communication companies. I have also advised several Central Banks and quasi-governmental organizations in the past and have provided testimony to our Federal and New York State Congressional Committees on such subjects as the U.S. Bankruptcy Law (1973), the Current Business Failure Epidemic (1982), Potential Impact of High Yield Securities on Credit Markets (1985), M&As, LBOs and the Recent Increase in Corporate Debt (1989), Revisions of the U.S. Bankruptcy Code (1996) and the New Basel Accord (2003). I have written and/or edited two dozen books and published over 130 academic and professional articles. A copy of my bio and vita are attached.

My comments today will center on an alternative plan to that presented by the automakers for the restructuring of our nation's automobile industry and also on the financial health of and solvency prospects of the largest of our automakers, General Motors Corporation.

Some of my testimony today is based on an opinion piece that I had published on Forbes.com on November 12, 2008, when there was discussion of a merger of Chrysler with GM. A copy of that article is presented as an attachment to this testimony. I have been analyzing the health of GM and Ford for several years now and predicted the downgrade of these large and important US automakers several years before their securities were eventually downgraded from investment grade debt to non-investment grade ("junk bonds") in spring 2005.

I was one of the first analysts to advocate that GM should file for bankruptcy protection under Chapter 11 of the US Bankruptcy Code, but that the U.S. Government should not turn its back on these huge, important American firms and provide directly, or, through a guarantee to large banks or large firm conduits, e.g. G.E., a massive debtor-in-possession (DIP) loan to provide the necessary liquidity to sustain them during the likely long restructuring period.

With respect to the plan put forward by the US automakers to qualify for a \$25+ billion loan-bailout, I would like to restrict my written comments to the financial aspects of the plan and especially to analyze whether the loan and revised capital structure will help transform GM into a potentially viable entity. Since there are potentially many subjective aspects to any viability study and great uncertainties as to the impact of operating changes that would accompany the financial changes, I believe it prudent to use a well tested and respected financial model to predict the future solvency of the firm. In addition, I will comment on the sustainability of GM after a government provided cash-infusion, as proposed by the automakers.

An Alternative to a Government Loan Program

General Motors Corporation is asking for a \$12 billion loan and a \$6 billion line of credit to provide the interim financing it says it needs to restructure the company. In addition, they will be offering a distressed exchange arrangement with their creditors to reduce the amount of debt by as much as \$30 billion. Unfortunately, some form of traditional loan, even for \$18 billion, is destined to fail in the current environment and will perhaps be followed by additional requests for more rescue funds or a bankruptcy petition once the initial loan has been exhausted. GM's cash-burn of perhaps \$2 billion a month, or more, will reduce the assets of GM even further, and be exhausted in six to nine months based on current conditions. The global automobile industry, not just GM, is facing the likely prospect of an extended and severe economic recession. Many economists and financial forecasters expect the recession to last at least another two years with the likely prospect of the worst recession since World War II.

What is the alternative to a highly controversial government bailout? If it were not for the potential reaction in global credit markets and in the world's automotive markets, the answer would be absolutely clear. Both GM, and probably Chrysler, should file for protection -- yes protection -- under the US Bankruptcy Code, as soon as feasible. The benefits afforded to firms whose assets are protected and whose fixed payments on most liabilities are suspended, while attempting to reorganize under Chapter 11 of the Code, are clear. And, another, sometimes overlooked, enormous benefit for firms in bankruptcy is their ability to borrow substantial amounts of funds for continued operations under what is known as "debtor-in-possession" (DIP) financing. This unique aspect of our Bankruptcy Code gives the provider of funds a super-priority status over all existing unsecured claims and is almost always accompanied by specific

collateral such that the chance of losing any of its investment is quite remote. Indeed, the number of DIP losses to lenders can be counted on one hand from the thousands of such financings in the past. GM, and probably Chrysler, still has some unencumbered assets to qualify and even if it did not, the super-priority status gives the new lender a greater degree of confidence of being repaid.

Critics of this idea will quickly point out that the current market for DIP lending is essentially shut-down, as financial institutions are in a massive deleveraging phase and DIP risk capital, even at spreads of 700-800 bps (7 - 8%) over LIBOR, is currently unavailable. Circuit City's recent \$1.1 billion DIP facility and Pilgrim Pride's \$0.5 billion facility, did, however, show some life in the DIP market. Because of this and the enormous amount involved, the DIP lender-of-last-resort must be the US Government, to permit a rational "right-sizing" of the bankrupt firm, rather than resulting in our nation's vehicle production industry to eventually be sold off in pieces.

I advocate that the government work with one or more conduit organizations, like JPMorgan Chase, Citi, Wells Fargo, Bank of America and GE, who are experienced in structuring and monitoring DIP loans. DIP loans can be increased over time, with appropriate fees, to sustain GM over this expected long and likely deep recession. Without this support, GM and Chrysler are, I am afraid, doomed to eventually file for bankruptcy at a later point, with lower recoveries as asset values deteriorate and job losses mount. Indeed, Chrysler had announced that 50 percent of its workforce would have been laid-off if the two firms had merged. In addition to the DIP support, bankruptcy status enhances the ability for management to renegotiate existing and legacy pension and health care claims, which is much more difficult

outside the protective confines of the court system. And, the savings alone on interest payments by GM/GMAC would be at least equal to the interest of about \$3.5 - \$5.0 billion a year to the government or its conduit on say a \$40 - \$50 billion DIP facility.

Some fear that a GM bankruptcy announcement will cause immeasurable harm to the economy and to financial markets. The current situation of “waiting for another shoe to drop” in the credit market meltdown includes a possible GM/Chrysler bankruptcy filing and no doubt there will be some negative consumer and vendor fallout should they file. But, pointing out the high likelihood of bankruptcy, which is now obvious to all, (something that I and the credit default swap market have been forecasting for some time) will help reduce the surprise impact. And, the clearly articulated communication of guaranteed government support via the post-bankruptcy DIP financing route will help blunt consumer fears of liquidation, lost warranties, spare parts availability and other bankruptcy costs that the management and Board of GM worry about. Those costs, in the form of lost sales and profits, have already taken place to a large extent, as potential customers assess the health of the major auto companies in their purchase decisions.

The management and boards of these two firms, which until recently have been in a state of denial, should face up to the reality of their dismal outlook and request the DIP loan, leaving the government the choice of supporting this unique rescue and hopefully concluding that it would be far better for the country and the economy to “right-size” the auto business in the U.S. now and make it more competitive, rather than have it deteriorate further and sold off at a later date with even more lost jobs and cuts in pension/health care benefits. Incidentally, any concerns about the impact of a bankruptcy on pension benefits are not valid since the well

managed GM pension plan under General Motors Asset Management is over-funded at this point in time.

Nobody wants to see our American motor carrier icons go into bankruptcy -- not even those who have been predicting this fate for some time. But, if most stakeholders will be better off and if we minimize the surprise factor, then Chapter 11 reorganization, (not liquidation), with government sponsored DIP lending, is the way to go.

The Viability of GM with a Government Bailout

In order to assess the financial viability of GM assuming that they would receive a loan of \$12 billion from the government and an additional line of credit of \$6 billion, as well as exchanging equity for debt and reducing existing debt by \$30 billion, I have utilized a model I developed called the Altman Z-Score model. This model is extremely well known and respected by practitioners and academics and is taught in most corporate finance, investments, and accounting courses and is the prototype for many of the world's financial institutions' corporate risk management system. It is a major source of default forecasting by practitioners and I am told by Bloomberg, Inc. that approximately 1,000 users of their system per day access the Altman Z-Score model. I developed the original Z-Score model 40 years ago and have updated the resulting firm credit scores bond rating equivalents for changes in the capital markets.

The Z-Score model is a composite credit score for manufacturers involving the calculation of five traditional financial measures of firm performance, including measures of corporate liquidity, cumulative and current profitability, leverage and sales productivity. Each measure is assigned a computer determined weighting such that when an analyst multiplies the

weights times the financial performance measures and sums up the five factors, the result is the overall Z-Score. The five variables and their weights are shown in Exhibits I-V. A variation of the Z-Score, comprising four of the five variables, was developed for non-manufacturing entities as well as manufacturers. This second model is known as the Z''-Score model. Also in the Appendix, are tables which show the bond-rating-equivalents of the Z and Z''-Scores (Exhibits IV and VII).

Over the years, the Z-Score model has been extremely accurate in correctly predicting between 82 - 94% of all firms that went bankrupt based on financial data from one year prior to bankruptcy. Since U.S. companies are, on average, more risky today than they were in 1968, I no longer use three zones to summarize their outlook (safe, grey and distressed-Exhibit III). Instead, we use the bond-rating-equivalents (BRE) that do change somewhat over time. From the BRE, we can then estimate the probability of default – assuming that the firm's BRE is above D (default).

I have analyzed General Motors' viability (including its 49% interest in GMAC) in the following way. I have taken its financial results as of the end of the third quarter of 2008 and estimated its fourth quarter's operating performance by assuming it was no better, or worse, than that of the third quarter. Actually, I am certain that the fourth quarter's results will be far worse than the loss of about \$2.5 billion reported in the third quarter. I have also assumed a \$2 billion per month "cash-burn" for each month in the 4th quarter, as reported by the firm in many of its statements. I have then adjusted its capital structure for the \$30 billion reduction in debt and addition to equity based on its proposed massive equity for debt swap. There is no guarantee incidentally, that GM's creditors will accept this distressed exchange, in whole or in part.

Finally, I have assumed that GM will receive the \$12 billion loan and \$6 billion line of credit.

As such, I have assumed the actualization of GM's proposed out-of-court restructuring.

Using the 5-variable Z-Score model, as of the end of the third quarter of 2008, GM's Z-Score was -0.16, which places the firm clearly in the "D" bond-rating-equivalent category. Indeed, GM's Z-Score fell and became negative for the first time as of June 2008 and was in the "D" default zone (see Exhibit VI). The average Z-Score of a sample of hundreds of bankrupt firms in the recent past was -0.19. When I estimated this pro-forma financial profile as of 12/31/08, GM's Z-Score improves slightly to -0.09, assuming the receipt of \$12 billion in loans and to -0.03 assuming an increase of \$18 billion in cash from the government. These scores are still much closer to a "D" rating equivalent than to a "CCC" rating. Please see Exhibits IX and X for the Z-Score calculation results and my assumptions for Q4 2008.

For the Z"-Score model, useful since a part of GM's activities are non-manufacturing, the scores and BREs are (Exhibits IX and X):

| <u>Period</u> | <u>Z"-Scores</u> | <u>BREs</u> |
|------------------------|------------------|-------------|
| 3Q 2008 | -1.57 | D |
| 4Q 2008 (\$12 billion) | -0.46 | D |
| 4Q 2008 (\$18 billion) | +0.02 | D |

In conclusion, even with the generous assumptions as to Q4 operating results and carefully adhering to GM's proposed restructuring, GM is still a highly distressed company and likely to go bankrupt, probably with one year. As a post-script, the Z-Score model can also be

used to evaluate the firm when it emerges from Chapter 11 as to whether it will be able to sustain itself as a going concern.

I hope the Committee will find my testimony helpful in their important deliberations. I would be pleased to answer any questions.

Exhibits On The Altman Z-Score Bankruptcy Model

Exhibit I

Z-Score Component Definitions

| <u>Variable</u> | <u>Definition</u> | <u>Weighting Factor</u> |
|-----------------|---|-------------------------|
| X_1 ----- | Working Capital Total Assets | 1.2 |
| X_2 ----- | Retained Earnings Total Assets | 1.4 |
| X_3 ----- | EBIT Total Assets | 3.3 |
| X_4 ----- | Market Value of Equity Book Value of Total Liabilities | 0.6 |
| X_5 ----- | Sales Total Assets | 1.0 |

Exhibit II

Altman Z-Score Bankruptcy Model

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + .6X_4 + .999X_5$$

$$X_1 = \frac{\text{Current Assets} - \text{Current Liabilities}}{\text{Total Assets}} \qquad X_4 = \frac{\text{Market Value of Equity}}{\text{Total Liabilities}}$$

$$X_2 = \frac{\text{Retained Earnings}}{\text{Total Assets}} \qquad X_5 = \frac{\text{Sales}}{\text{Total Assets}} \quad \left(= \# \text{ of Times} \right. \\ \left. \text{e.g. } 2.0x \right)$$

$$X_3 = \frac{\text{Earnings Before Interest and Taxes}}{\text{Total Assets}}$$

Exhibit III

Zones of Discrimination:

Original Z-Score Model (1968)

$Z > 2.99$ - “Safe” Zone

$1.8 < Z < 2.99$ - “Grey” Zone

$Z < 1.80$ - “Distress” Zone

Exhibit IV **Average Z-Score by S&P Bond Rating** **S&P 500**

| <u>Rating</u> | <u>2004-2005</u> | <u>1996-2001</u> | <u>1992-1995</u> |
|---------------|------------------|------------------|------------------|
| AAA | 5.31 | 5.60 | 4.80 |
| AA | 4.99 | 4.73 | 4.15 |
| A | 4.22 | 3.74 | 3.87 |
| BBB | 3.37 | 2.81 | 2.75 |
| BB | 2.27 | 2.38 | 2.25 |
| B | 1.79 | 1.80 | 1.87 |
| B- | 1.34 | 1.31 | 1.38 |
| CCC+ | 0.90 | 0.82 | 0.89 |
| CCC | 0.45 | 0.33 | 0.40 |
| D | -0.19 | -0.20 | 0.05 |

Source: Compustat Database

Exhibit V **Classification & Prediction Accuracy** **Z-Score (1968) Failure Model***

| <u>Year Prior</u> <u>To Failure</u> | <u>Original</u> <u>Sample (33)</u> | <u>Holdout</u> <u>Sample (25)</u> | <u>1969-1975</u> <u>Predictive</u> <u>Sample (86)</u> | <u>1976-1995</u> <u>Predictive</u> <u>Sample (110)</u> | <u>1997-1999</u> <u>Predictive</u> <u>Sample (120)</u> |
|--|---------------------------------------|--------------------------------------|---|--|--|
| 1 | 94% (88%) | 96% (72%) | 82% (75%) | 85% (78%) | 94% (84%) |
| 2 | 72% | 80% | 68% | 75% | 74% |
| 3 | 48% | - | - | - | - |
| 4 | 29% | - | - | - | - |
| 5 | 36% | - | - | - | - |

*Using 2.67 as cutoff score (1.81 cutoff accuracy in parenthesis)

Exhibit VI **U.S. Automotive Industry: Z, Z"-Scores and Bond Rating** **Equivalents (BRE)**

| | Ford and GM Quarterly Z and Z score tracking | | | | | |
|--------------------------|--|---------------------|-------------------------|--------------------------|-------------------------|------------------|
| | Ford | | | GM | | |
| | Z Scores | BRE | Z Scores ⁽¹⁾ | BRE | Z Scores ⁽¹⁾ | D ⁽¹⁾ |
| 09/30/08 ⁽¹⁾ | 0.44 ⁽²⁾ | CCC ⁽¹⁾ | (0.16) ⁽¹⁾ | (0.07) ⁽²⁾ | CCC- / D ⁽²⁾ | CCC |
| 06/30/08 ⁽²⁾ | 0.56 ⁽²⁾ | CCC ⁽²⁾ | 0.57 | 0.52 | CCC | CCC |
| 3/31/08 | | CCC | 0.58 | 0.88 | CCC+ | CCC+ |
| 12/31/07 | | CCC | 0.35 | 1.04 | CCC+ | CCC+ |
| 12/31/06 | | CCC | 0.64 | 0.46 | CCC | CCC |
| 12/31/05 | | CCC | 0.61 | 0.36 | CCC | CCC |
| 12/31/04 | | CCC | | | | |
| 9/30/2008 ⁽¹⁾ | 2.62 ⁽¹⁾ | CCC ⁽¹⁾ | Z" Scores | Z" Scores ⁽¹⁾ | BRE | D ⁽¹⁾ |
| 06/30/08 ⁽²⁾ | 3.33 ⁽²⁾ | CCC+ ⁽²⁾ | | (1.49) ⁽¹⁾ | (0.63) ⁽²⁾ | D ⁽²⁾ |
| 3/31/08 | 3.03 | CCC+ | | 1.03 | CCC- | CCC- |
| 12/31/07 | 3.03 | CCC+ | | 1.94 | CCC- | CCC- |
| 12/31/06 | 2.73 | CCC | | 2.95 | CCC+ | CCC+ |
| 12/31/05 | 2.92 | CCC+ | | 3.82 | B- | B- |
| 12/31/04 | 2.86 | CCC+ | | 2.78 | CCC | CCC |
| Representative Bond | | | | | | |
| Moody's Ratings (8/2008) | 5.65% SrSub 11/21/11 | B1 | | 7.20% SrSub 1/15/11 | | Caal |
| S&P Rating (11/7/2008) | | B- | | | | CCC+ |
| Fitch Rating (11/7/2008) | | CCC | | | | CCC |
| Bid Price (as of 8/2008) | | 65.97 | | | | 58.50 |
| Yield | | 21.47% | | | | 33.36% |

Data Source: Bloomberg

[1] Last Twelve Months (LTM) data as of 09/30/2008

[2] Last Twelve Months (LTM) data as of 06/30/2008

Exhibit VII

Z"-Score Model for Manufacturers, Non-Manufacturer -

Industrials, & Emerging Market Credits

| | |
|--|-------------------|
| $Z'' = 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$ | |
| $X_1 =$ Current Assets - Current Liabilities | |
| | Total Assets |
| $X_2 =$ Retained Earnings | |
| | Total Assets |
| $X_3 =$ Earnings Before Interest and Taxes | |
| | Total Assets |
| $X_4 =$ Book Value of Equity | |
| | Total Liabilities |
| <div> <div>$Z'' > 2.60$ - "Safe" Zone</div> <div>$1.1 < Z'' < 2.60$ - "Grey" Zone</div> <div>$Z'' < 1.1$ - "Distress" Zone</div> </div> | |

Exhibit VIII

US Bond Rating Equivalent Based on Z'' -Score Model

$$Z'' = 3.25 + 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$$

| Rating | Average 1996 Z''-Score ⁽¹⁾ | Average 2006 Z''-Score ⁽¹⁾ |
|---------|---------------------------------------|---------------------------------------|
| AAA/AA+ | 8.15 (8) | 7.51 (14) |
| AA/AA- | 7.16 (33) | 7.78 (20) |
| A+ | 6.85 (24) | 7.76 (26) |
| A | 6.65 (42) | 7.53 (61) |
| A- | 6.4 (38) | 7.10 (65) |
| BBB+ | 6.25 (38) | 6.47 (74) |
| BBB | 5.85 (59) | 6.41 (99) |
| BBB- | 5.65 (52) | 6.36 (76) |
| BB+ | 5.25 (34) | 6.25 (68) |
| BB | 4.95 (25) | 6.17 (114) |
| BB- | 4.75 (65) | 5.65 (173) |
| B+ | 4.5 (78) | 5.05 (164) |
| B | 4.15 (115) | 4.29 (139) |
| B- | 3.75 (95) | 3.68 (62) |
| CCC+ | 3.2 (23) | 2.98 (16) |
| CCC | 2.5 (10) | 2.20 (8) |
| CCC- | 1.75 (6) | 1.62 (0) ⁽²⁾ |
| CC/D | 0 (14) | -1.04 (5) |

Sources: Compustat, Company Filings and S&P

⁽¹⁾ Sample Size in Parentheses

⁽²⁾ Interpolated between CCC and CC/D

Exhibit IX

General Motors Corp: Summary Analysis (Government loan = \$12bn)

| Date | Z Score | BRE ¹ | Z" Score | BRE ¹ | S&P Rating | Moody's Rating |
|---------------------------------------|---------|------------------|----------|------------------|------------|-----------------|
| LTM for year ended September 30, 2008 | (0.16) | D | (1.57) | D | CCC+ | WR ¹ |
| LTM for year ended December 31, 2008 | (0.09) | D | (0.46) | D | NA | NA |

¹ Bond Rating Equivalent

² Withdrawn Rating

Assumptions:

Source: 10K and 10Q

EBIT calculations for LTM for year ended December 31, 2008: Q1 + Q2 + (Q3 X 2)

Revenues calculation for LTM for year ended December 31, 2008: Q1 + Q2 + (Q3 X 2)

Cash Balance and working capital for LTM for year ended December 31, 2008: Balance in Q3 - \$6bn + \$12bn

Outstanding Debt calculations for LTM for year ended December 31, 2008: Assumed the writeoff of the \$30bn debt with a corresponding increase in Book Value of Equity

Add \$12bn to Total Liabilities

Retained Earnings calculations for LTM for year ended December 31, 2008:: Q3 balance - \$2.542bn

Market Value of company

- Q3 2008: Closing share price on September 30, 2008 X No. of shares outstanding

- Q4 2008: Closing share price on December 02, 2008 X No. of shares outstanding

Exhibit X
General Motors Corp: Summary Analysis (Government loan = \$18bn)

| Date | Z Score | BRE ¹ | Z ² Score | BRE ¹ | S&P Rating | Moody's Rating |
|---------------------------------------|---------|------------------|----------------------|------------------|------------|-----------------|
| LTM for year ended September 30, 2008 | (0.16) | D | (1.57) | D | CCC+ | WR ² |
| LTM for year ended December 31, 2008 | (0.03) | D | 0.02 | D | NA | NA |

¹ Bond Rating Equivalent

² Withdrawn Rating

Assumptions:

Source: 10K and 10Q

EBIT calculations for LTM for year ended December 31, 2008: Q1 + Q2 + (Q3 X 2)

Revenues calculation for LTM for year ended December 31, 2008: Q1 + Q2 + (Q3 X 2)

Cash Balance and working capital for LTM for year ended December 31, 2008: Balance in Q3 - \$6bn + \$18bn

Outstanding Debt calculations for LTM for year ended December 31, 2008: Assumed the writeoff of the \$30bn debt with a corresponding increase in Book Value of Equity

Add \$18bn to Total Liabilities

Retained Earnings calculations for LTM for year ended December 31, 2008: Q3 balance - \$2.542bn

Market Value of company

- Q3 2008: Closing share price on September 30, 2008 X No. of shares outstanding

- Q4 2008: Closing share price on December 02, 2008 X No. of shares outstanding

**Why GM Should File For Bankruptcy with a DIP-Twist Help
From Its Friend: The US Government**

Edward I. Altmanⁱ

All this talk about a government rescue of GM and other automakers, involving this struggling and probably insolvent giant, is misguided, likely a waste of taxpayers' money and a potential further diminution in the credit worthiness of the US government. It is time now to focus seriously on the gut wrenching question as to whether this American icon should file for bankruptcy as soon as possible or continue to attempt to survive outside the protective confines of the Bankruptcy Courts. With GM's financial profile, based on my Z-Score bankruptcy prediction model, now is clearly deep into the distressed firm zone, and with the global economy facing a severe and likely prolonged economic recession, the correct choice is to file for bankruptcy and seek an immediate significant liquidity boost from the post-bankruptcy debtor-in-possession (DIP) financing mechanism. This traditional option for failing firms will require a unique twist – assistance of the US government as a meaningful player, but at little risk and attractive returns to the US taxpayer.

The latest chapter in this continuing debate is that the current administration in Washington will likely honor its commitment to provide \$25 billion in low interest loans to the major US auto manufacturers for the development of fuel efficient cars, and there is mounting sentiment in the Congress and within the President-elect's transition team to provide still more assistance, although the exact bailout mechanism is unclear. The fuel efficient car development request requires, however, that the Energy Department concludes that the borrower has assets that exceed its liabilities and that it is likely to be able to repay the loans. As of September 30, 2008, however, the former was not the case as GM had total assets of \$110 billion but total liabilities of \$170 billion. GM must somehow convince Energy officials that it is solvent and

creditworthy, a dubious possibility now that it has announced it will run out of cash by mid-2009 and it will violate loan covenants on about \$6 billion in debt very shortly. Unless it secures new sources of capital or unless the government infusion is in the form of equity, GM's liabilities will still exceed its assets.

Unfortunately, some form of traditional loan guarantee or outright investment in the combined GM/Chrysler entity is destined to fail and to be followed by repeated requests for more rescue funds. As noted, these firms are facing the likely prospect of an extended, severe economic recession in the US and abroad, not to mention the staggering weight of their own inefficiencies, huge pension and health care benefit packages, and their now clear bankrupt profiles. The latter is based on GM's Z-Score of -0.17 as of September 2008, clearer in the case of GM, since Chrysler's financials are not available due to their being a private company. If the Government does increase the loan program for more fuel efficient cars, GM will still need substantial interim support until any tangible benefits from this subsidy are observable.

Now comes the tricky part -- what is the alternative to a highly controversial government bailout. If it were not for the potential panicked reaction in global credit markets and in the world's automotive markets, the answer would be clear. Both GM and Chrysler should file for protection -- yes protection -- under the US Bankruptcy Code, as soon as feasible. The enormous benefits afforded to firms whose assets are protected and whose fixed payments on most liabilities are suspended, while attempting to reorganize under Chapter 11 of the Code, are clear and known by most advisors to these firms. And, another, sometimes overlooked, benefit for firms in bankruptcy is their ability to borrow substantial amounts of funds for continued operations under what is known as "debtor-in-possession" (DIP) financing. This unique aspect of our Bankruptcy Code gives the provider of funds a super-priority status over all existing

unsecured claims and is almost always accompanied by specific collateral such that the chance of losing any of its investment is quite remote. Indeed, the number of DIP losses to lenders can be counted on one hand from the thousands of such financings in the past. GM, and probably Chrysler, still has some unencumbered assets to qualify and even if it did not, the super-priority status gives the new lender a greater degree of confidence of being repaid. Ford has less of these unencumbered assets although its Z-Score is somewhat higher than GM.

Critics of this idea will quickly point out that the current market for DIP lending is essentially shut-down, as financial institutions are in a massive deleveraging phase and DIP risk capital, even at spreads of 700-800 bps (7-8%) over LIBOR, is currently unavailable. Circuit City's \$1.1 billion DIP facility did, however show some life in the DIP market. Because of this, the DIP lender-of-last-resort is and should be the US Government, rather than allowing our vehicle production industry to be sold off to foreign interests.

I advocate that the government work with one or more conduit organizations, perhaps by merely providing a loan guarantee, like JPMorgan Chase, Citi, Wells Fargo and GE, who are experienced in structuring and monitoring DIP loans. DIP loans can be increased over time, with appropriate fees, to sustain GM over this expected long and likely deep recession. Without this support, GM and Chrysler are, I am afraid, doomed to eventually file for bankruptcy at a later point, with lower recoveries as asset values deteriorate and job losses mount. Indeed, Chrysler has already announced that 50 percent of its workforce would have been laid-off if the two firms had merged. In addition to the DIP support, bankruptcy status enhances the ability for management to renegotiate existing and legacy pension and health care claims which is much more difficult outside the protective confines of the court system. And, the savings alone on interest payments by GM and GMAC would be at least \$16 billion a year, easily covering the

interest of about \$3.5 - \$5.0 billion a year to the government or its conduit on say a \$50 billion DIP facility.

Some fear that a GM bankruptcy announcement will cause immeasurable harm to the economy and to financial markets. The current situation of “waiting for another shoe to drop” in the credit market meltdown includes a possible GM/Chrysler bankruptcy filing and no doubt there will be some negative consumer and vendor fallout should they file. But, pointing out the high likelihood of bankruptcy, something that I and the credit default swap market have been forecasting for some time, will help reduce the surprise impact. And, the indication of guaranteed government support via the post-bankruptcy DIP financing route could help blunt consumer fears of liquidation, lost warranties, spare parts availability and other bankruptcy costs that the management and Board of GM worry about. Face it, those costs, in the form of lost sales and profits, have already mostly taken place as potential customers assess the health of the major auto companies in their purchase decisions.

The management and boards of these two firms, which have been in a state of denial, should face up to the reality of their dismal outlook and request the DIP loan, leaving the government the choice of supporting this unique rescue, concluding that it would be far better for the country and the economy to “right-size” the auto business in the US now and make it more competitive, rather than have it deteriorate further and sold off at a later date with even more lost jobs and cuts in pension/health care benefits.

Nobody wants to see our American motor carrier icons go into bankruptcy - - not even me and others who have been predicting this fate for some time. But, if most stakeholders will be better off and if we can minimize the surprise factor, then Chapter 11 reorganization, (not liquidation), with government sponsored DIP lending, is the way to go.

November 11, 2008

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United States Government Accountability Office

GAO

Testimony
Before the Committee on Financial
Services, House of Representatives

For Release on Delivery
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AUTO INDUSTRY

A Framework For Considering Federal Financial Assistance

Statement of Gene L. Dodaro
Acting Comptroller General of the United States



GAO-09-247T

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Highlights of GAO-09-247T, a testimony before the Committee on Financial Services, House of Representatives

Why GAO Prepared This Statement

The current economic downturn has brought significant financial stress to the auto manufacturing industry. Recent deteriorating financial, real estate, and labor markets have reduced consumer confidence and available credit, and automobile purchases have declined. While auto manufacturers broadly have experienced declining sales in 2008 as the economy has worsened, sales of the "Big 3" (General Motors, Chrysler, and Ford) have also declined relative to those of some other auto manufacturers in recent years because higher gasoline prices have particularly hurt sales of sport utility vehicles.

In addition to causing potential job losses at auto manufacturers, failure of the domestic auto industry would likely adversely affect other sectors. Officials from the Big 3 have requested, and Congress is considering, immediate federal financial assistance.

This testimony discusses principles that can serve as a framework for considering the desirability, nature, scope, and conditions of federal financial assistance. Should Congress decide to provide financial assistance, we also discuss how these principles could be applied in these circumstances. The testimony is based on GAO's extensive body of work on previous federal rescue efforts that dates back to the 1970s.

To view the full product, including the scope and methodology, click on GAO-09-247T. For more information, contact Katherine Siggerud at (202) 512-2834, J. Christopher Mihm at (202) 512-3236, or Gary L. Keppinger at (202)-512-5400.

December 5, 2008

AUTO INDUSTRY

A Framework for Considering Federal Financial Assistance

What GAO Found

From our previous work on federal financial assistance to large firms and municipalities, we have identified three fundamental principles that can serve as a framework for considering future assistance. These principles are (1) identifying and defining the problem, (2) determining the national interests and setting clear goals and objectives that address the problem, and (3) protecting the government's interests. First, problems confronting the industry must be clearly defined—separating out those that require an immediate response from those structural challenges that will take more time to resolve. Second, Congress should determine whether the national interest will be best served through a legislative solution, or whether market forces and established legal procedures, such as bankruptcy, should be allowed to take their course. Should Congress decide that federal financial assistance is warranted, it is important that Congress establish clear objectives and goals for this assistance. Third, given the significant financial risk the federal government may assume, the structure Congress sets up to administer any assistance should provide for appropriate mechanisms, such as concessions by all parties, controls over management, compensation for risk, and a strong independent board, to protect taxpayers from excessive or unnecessary risks.

These principles could help the Congress in deciding whether to offer financial assistance to the domestic auto manufacturers. If Congress determines that a legislative solution is in the national interest, a two-pronged approach could be appropriate in these circumstances. Specifically, Congress could 1) authorize immediate, but temporary, financial assistance to the auto manufacturing industry and 2) concurrently establish a board to approve, disburse, and oversee the use of these initial funds and provide any additional federal funds and continued oversight. This board could also oversee any structural reforms of the companies. Among other responsibilities, Congress could give the board authority to establish and implement eligibility criteria for potential borrowers and to implement procedures and controls in order to protect the government's interests.

Number of Vehicles Sold By the Big 3, 2004 to 2008
Vehicles sold (in hundreds of thousands)



Source: IHS Global Insight

Chairman Frank, Ranking Member Bachus, and Members of the Committee:

We appreciate the opportunity to testify on possible federal assistance to the domestic auto industry. The current economic downturn has added to the significant financial stress facing that industry. Deteriorating financial, real estate, and labor markets have reduced consumer confidence and available credit, and automobile purchases have declined. After reaching a recent high of about 1.8 million in July 2005, the number of vehicles sold in the United States dropped to about 800,000 in October 2008, approximately a 54 percent decline. While most auto manufacturers have experienced declining sales in 2008, recent economic conditions have particularly hurt sales of the “Big 3” domestic auto manufacturers (General Motors, Ford, and Chrysler), in part because these companies have historically derived most of their sales from vehicles such as sport utility vehicles, which are less fuel efficient, but more profitable than small cars. Higher gasoline prices over the past several years, which rose to over \$4 per gallon in the summer of 2008 before falling steeply this fall, have contributed to a sharp decline in consumer demand for these vehicles. The tightening of the credit markets has also affected the Big 3 and their suppliers, which together employ about 730,000 people. In addition to potential job losses at auto manufacturers, the collapse or partial collapse of the domestic auto industry would adversely affect auto dealers, suppliers, and other sectors.

Officials from the Big 3 have requested immediate federal financial assistance, reporting that their companies are experiencing significant financial stress.¹ Less than three days ago, the Big 3 submitted business plans to Congress that describe their requests for federal assistance and restructuring plans. Congress has asked us to review these plans. In deciding whether to provide financial assistance, Congress must consider and balance

¹For example, as of September 30, 2008 General Motors reported total liabilities of over \$169.4 billion with total assets of about \$110.4 billion, resulting in negative equity of nearly \$59 billion. General Motors, has requested total financial assistance of \$18 billion. As of September 30, 2008 Ford reported total liabilities of debt of about \$242.6 billion with total assets of about \$242.1 billion, resulting in negative equity of approximately \$0.5 billion. Officials from Ford have requested a “stand-by” line of credit up to \$9 billion, to be used if conditions worsen. Because Chrysler is privately owned, data on its financial condition is not currently available to the public. Nevertheless, officials from Chrysler have stated that without immediate assistance, its liquidity could fall below the level necessary to sustain operations. Chrysler has requested \$7 billion of financial assistance.

the perceived need for expedience with the need to put a structure in place to ensure that the interests of taxpayers are safeguarded and the specific problems that have put the industry in its current financial crisis are addressed.

In my statement today, I will discuss principles that could serve as a framework for considering the desirability, nature, scope, and conditions of possible federal financial assistance and, should Congress decide to provide financial assistance, how these principles could be applied in these circumstances. My remarks are based on our extensive body of work on previous federal financial assistance efforts that dates back to the 1970s, including those efforts directed to individual large corporations, such as the Chrysler Corporation and Lockheed Aircraft Corporation, as well as municipalities and commercial aviation.²

Summary

- From our previous work on federal financial assistance to large firms and municipalities, we have identified three fundamental principles that can serve as a framework for considering future assistance. First, the problems confronting the industry need to be clearly defined—distinguishing between those that require an immediate financial response from those that are likely to require more time to resolve. Second, Congress must determine whether the national interest will be served best through a legislative solution, or whether market forces and established legal procedures, such as bankruptcy reorganization, should be allowed to take their course. Should Congress decide that federal financial assistance is warranted, it is important that Congress establish clear objectives and goals for this assistance. Third, given the significant financial risk the federal government may assume on behalf of taxpayers, the structure Congress sets up to administer any assistance should provide for appropriate mechanisms, such as concessions by all parties,

²GAO, *Troubled Financial Institutions: Solutions to the Thrift Industry Problem* (GAO/GGD-89-47, Feb. 21, 1989), *Resolving the Savings and Loan Crisis* (GAO/T-GGD-89-3, Jan. 26, 1989), *Guidelines for Rescuing Large Failing Firms and Municipalities* (GAO/GGD-84-34, Mar. 29, 1984), and *Commercial Aviation: A Framework for Considering Federal Financial Assistance* (GAO-01-1163T, Sept. 20, 2001).

controls over management, compensation for risk, and a strong independent board, to protect taxpayers from excessive or unnecessary risks.

- Congress could apply these principles when deciding whether to offer any financial assistance to the domestic auto manufacturers. If Congress determines that a legislative solution is in the national interest, a two-pronged approach in applying the principles could be appropriate in these circumstances. Specifically, Congress could 1) authorize immediate, but temporary, financial assistance to the auto manufacturing industry and 2) concurrently establish a board to approve, disburse, and oversee the use of these initial funds and provide any additional federal funds and continued oversight. This board could also oversee any structural reforms of the companies. Among other responsibilities, Congress could give the board authority to establish and implement eligibility criteria for potential borrowers and to implement procedures and controls in order to protect the government's interests.

Principles for Large-Scale Federal Financial Assistance Efforts Could Guide Congressional Consideration of Auto Manufacturers' Requests

We have identified three fundamental principles that can serve as a framework for considering large-scale federal assistance efforts. These principles are (1) identifying and defining the problem, (2) determining the national interests and setting clear goals and objectives that address the problem, and (3) protecting the government's interests.

- **Identify and define the problem:** The government should clearly identify and define the specific problems confronting the industry—separating out those that require an immediate response from those structural challenges that will take more time to resolve. According to the auto manufacturers, the most immediate threat to the industry comes from inadequate cash reserves and negative projected cash flows combined with a tightening or denial of credit by commercial lending institutions. General Motors and Ford have not been profitable since at least 2006, and sales have

decreased substantially for the Big 3 in 2008.³ In this regard, deteriorating financial and real estate markets, weakening labor markets, and high fuel prices have contributed to reductions in consumers' demand for new vehicles, particularly less fuel-efficient vehicles. In addition, tightening consumer credit has made it difficult for some consumers to obtain auto loans. The industry, however, also faces structural challenges that will need to be dealt with, including higher labor and pension costs than competitors, dealership relationships and structure, and fleet characteristics—especially in the area of fuel efficiency.

- **Determine national interests and set clear goals and objectives that address the problem:** After defining the problem, Congress must determine whether a legislative solution best serves the national interest. If Congress determines that the benefits of federal intervention exceed those of bankruptcy reorganization for one or more of the domestic manufacturers, Congress could draft legislation to guide the availability and use of federal assistance. It is important that the legislation include a clear and concise statement of the objectives and goals of the assistance program. A statement of the objectives and goals of the program would help Congress and program administrators determine which financial tools are needed and most appropriate for the industry and for company-specific circumstances; provide criteria for program decisions; and serve as a basis for monitoring progress. Finally, although Congress may decide that there is a compelling national interest in providing financial assistance to help ensure the long-term viability of the Big 3, companies receiving assistance should not remain under federal protection indefinitely. Identifying the conditions that will signal an end to that protection would serve as congressional guidance on when the industry should emerge from the assistance program.
- **Protecting the government's interest:** Because these assistance programs pose significant financial risk to the federal government, appropriate mechanisms should be included to protect taxpayers from excessive or unnecessary risks. Mechanisms,

³Chrysler is a private company and does not report its profits or losses publicly.

structures, and protections should be implemented to ensure prudent use of taxpayer resources and manage the government's risk consistent with a good faith attempt to achieve the congressional goals and objectives of any federal financial assistance program.⁴ This can be achieved through the following four actions—all of which have been used in the past.⁵

1. Concessions from others: Congress should require concessions from others with a stake in the outcome—including management, labor, suppliers, dealers, and creditors. The concessions are not meant to extract penalties for past actions, but to ensure cooperation and flexibility in securing a successful future outcome.
2. Controls over management: The government must have the authority to approve an aid recipient's financial and operating plans and new major contracts. The authority is meant to ensure a restructuring plan with realistic objectives and to hold management accountable for achieving results.
3. Collateral: To the extent feasible, the government should require that the recipient provide adequate collateral, and that the government be in a first lien position.
4. Compensation for risk: The government should receive compensation through fees and/or equity participation in return for providing federal aid. The government's participation in any upside gains is particularly important if the program succeeds in restoring the recipient's financial operational health.⁶

Using the Principles As A Framework for Considering Financial Assistance for the Auto Manufacturing Industry

Congress could apply these principles if it decides to offer financial assistance to the domestic auto manufacturers. If Congress determines that the systemic, economic

⁴GAO-01-1163T.

⁵GAO/GGD-84-34.

⁶In a previous financial assistance package for Chrysler, the government obtained equity participation in the form of warrants that allow the government to purchase shares of a recipient's stock at a specified price. A decision on whether equity participation should be included as well as its form and amount should be made on a case-by-case basis.

consequences of risking the immediate failure of any or all of these companies are too great, a two-pronged approach in applying the principles could be appropriate. Specifically, Congress could 1) authorize immediate, but temporary, financial assistance to the auto manufacturing industry and 2) concurrently establish a board to approve, disburse, and oversee the use of these initial funds and provide any additional federal funds and continued oversight. This board could also oversee any structural reforms of the companies. Among other responsibilities, Congress could give the board authority to establish and implement eligibility criteria for potential borrowers and to implement procedures and controls in order to protect the government's interests.

The federal government has a range of tools it could use to provide such bridge assistance, including loans and loan guarantees.⁷ Historically, the federal government has used loans and loan guarantees in its financial assistance to specific companies. In providing such credit assistance, the government has assumed that the federal role is to help the industry overcome a cyclical or event-specific crisis by gaining access to cash in the short term that it otherwise cannot obtain through the markets. Credit assistance assumes that the aided companies will eventually return to financial health and have the capacity to pay back the loans. The government has offered such assistance in return for companies providing various forms of collateral and/or equity to protect taxpayer interests, as well as for various concessions by interested parties to share the risk and promote shared responsibility. For example, any federal assistance to an auto manufacturer might seek to ensure that all parties, including labor and management, share responsibility for bringing the company back to profitability, and that no party makes excessive concessions relative to the other parties. Finally, accountability should be built in so that Congress and the public can have confidence that the assistance was

⁷Loan guarantees help borrowers obtain access to credit with more favorable terms than they may otherwise obtain in private lending markets because the federal government guarantees to pay lenders if the borrowers default, which makes extending credit more attractive to lenders. Loan guarantees have the advantage of encouraging private-sector participation and potential expertise, with higher levels of federal guarantees likely generating the most participation. The Office of Management and Budget's Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables* prescribes policies and procedures for justifying, designing, and managing federal credit programs. This guidance states that lenders should have a substantial stake in full repayment, generally 20 percent. Limiting the federal guarantee to 80 percent ensures that lenders share in the risks associated with the loan. However, given the current problems in the credit sector, lenders may be unable to provide large loans and unwilling to accept such risks.

prudent and consistent with the identified objectives. For example, as a condition for receiving federal assistance, the auto manufacturers should be required to provide program administrators and appropriate oversight bodies with access to their financial records and submit detailed operating and financial plans indicating how the funds and other sources of financing will be used to successfully return the companies to profitability. Such information would allow program administrators to oversee the use of funds and to hold the companies accountable for results.

Congress should concurrently establish a board to approve, disburse, and oversee the use of these initial funds and provide any additional federal funds and continued oversight. This board could also oversee any structural reforms of the companies. The federal government has established boards to implement past financial assistance efforts, including when providing assistance to Lockheed in 1971 and Chrysler in 1980. More recently, in the aftermath of the 2001 terrorist attacks on the United States, Congress created the Air Transportation Stabilization Board (ATSB) to provide loan guarantees to the airline industry. The voting members of ATSB included a member of the Board of Governors of the Federal Reserve System and representatives from the Departments of the Treasury and Transportation. While the exact membership of a board to provide financial assistance to the Big 3 auto manufacturers could differ, past federal financial assistance efforts suggest that it would be prudent to include representatives from agencies knowledgeable about the auto manufacturing industry as well as from those agencies skilled in financial and economic analysis and assistance. In creating such a board, it will be crucial for Congress to ensure that the board, similar to boards created to implement past federal financial assistance efforts, has access to all financial or operational records for any recipients of federal assistance so that informed judgments and reviews can occur.⁸ It would also be important to ensure that the board has the authority and resources to hire or contract for necessary legal, financial, and

⁸In addition, prior federal assistance programs for failing firms and municipalities gave GAO the authority to audit the accounts of the recipients and the right of access to the records needed to do so. This authority enabled GAO to support congressional oversight of the assistance program.

other expertise.⁹ For example, ATSB hired an executive director, financial analyst, and legal counsel to help the board carry out its duties.

Beyond access to records and expertise, however, to succeed in achieving the goal of a restructured industry, the board is likely to need the authority to implement procedures and controls to protect the government's interests. This would include bringing the parties with a stake in a successful outcome to the table. Our review of past large-scale financial assistance efforts leads us to conclude that all of these parties must make concessions—not as penalties for past actions but rather to ensure cooperation in securing a successful future. The board would also need authority to approve the borrower's operating and financial plans and major new contracts to ensure the plans are realistic and to assess management's efforts in achieving results. In addition, the federal government should be the first creditor to be repaid in the event of a bankruptcy or when the company returns to profitability. In 1980, when providing assistance to Chrysler, Congress mandated that Chrysler meet additional policy-oriented requirements such as achieving certain energy efficiency goals and placed limits on executive compensation. More recently, as a condition of receiving federal assistance in the wake of the September 11 terrorist attacks, the Air Transportation Safety and System Stabilization Act required that airlines limit executive compensation.¹⁰

In addition, the board, consistent with congressional direction, could require that manufacturers, with the cooperation of labor unions, take steps to help control costs. Such steps could include reducing excess capacity by closing or downsizing manufacturing facilities, reducing work-rule restrictions that limit flexibility in terms of which workers can do what types of jobs, and ending contracts with dealerships that require the manufacturer to pay a large buyout to a dealer if a product line is eliminated. Some of these steps should be specifically addressed in the legislation. It will be important to keep in mind, however, that the affected parties will cooperate only if the assistance program offers a better alternative than bankruptcy. The government should

⁹Staff could also be detailed from federal agencies represented on the board to support the board's review and oversight function.

¹⁰P.L. No. 107-42.

not expect creditors, for example, to make concessions that will cost them more than they would expect to lose in a bankruptcy proceeding.¹¹ Finally, Congress should provide the board with enough flexibility to balance requirements in each recipient's business plan to achieve and maintain profitability.

The board could be the logical entity to establish and implement clearly defined eligibility criteria for potential borrowers, consistent with statutory direction provided by Congress, and establish other safeguards to help protect the government's interests and limit the government's exposure to loss. The safeguards could vary, depending on the nature of the financial assistance tools used. Examples of safeguards over loans and loan guarantees that have been used in the past include the following:

- Potential borrowers have been required to demonstrate that they meet specific eligibility criteria, consistent with congressional direction as to the problems to be addressed and the objectives and goals of the assistance.
- Potential borrowers have been required to demonstrate that their prospective earning power, together with the character and value of any security pledged, provided reasonable assurance of repayment of the loan in accordance with its terms.
- Potential borrowers have been required to clearly indicate the planned use of the loans so that the board could make appropriate decisions about the borrower's financial plan and terms and conditions, as well as collateral.
- The government has charged fees to help offset the risks it assumed in providing such assistance.
- For loan guarantees, the level of guarantee has been limited to a given percentage of the total amount of the loan outstanding.

¹¹GAO/GGD-84-34.

To further enhance accountability and promote transparency, the board should monitor the status of federal assistance on a regular basis and require regular reporting from companies receiving assistance. This reporting should, at a minimum, include information on cash flow, financial position, and results of independent audits. In addition, the board should be required to provide periodic reports to Congress. This reporting should include status reports on the amount and types of assistance provided to the auto manufacturing industry, periodic assessments of the effectiveness of the assistance, and status of any repayments of loans that the federal government has provided to the industry.

In addition to providing oversight and accountability of the federal funds, the board could be charged with overseeing efforts of the assisted companies to implement required changes and reform. The board would likely need to consider industry-specific issues in implementing financial assistance and industry reform. Employee compensation would be one of those issues, and a very complex one. Benefits for auto industry workers represent a significant long-term financial commitment of the companies seeking assistance, much of it to retirees and their families. Although success in a company's future will depend in part on sacrifice from all stakeholders, most of the changes in this area will necessarily take effect over the long term. The complexities of these arrangements and their interface with active workers and with existing government programs will make implementing federal assistance particularly challenging. For example, the board would need to consider the impact that a possible bankruptcy filing by an auto manufacturer would have on the Pension Benefit Guaranty Corporation, the federal agency that insures private employers' defined benefit pensions, and whose cumulative balance is already negative.

Concluding Observations

In conclusion, Congress is faced with a complex and consequential decision regarding the auto manufacturers' request for financial assistance. The collapse or partial collapse of the domestic auto manufacturing industry would have a significant ripple effect

throughout other sectors of the economy and serve as a drag on an already weakened economy. However, providing federal financial assistance to the auto manufacturing industry raises concerns about protecting the government's interests and the precedent such assistance could set for other industries seeking relief from the current economic downturn.

My remarks today have focused on principles Congress may wish to consider as it contemplates possible financial assistance for the auto manufacturing industry. These principles are drawn directly from GAO's support of congressional efforts over several decades to assist segments of industries, firms, the savings and loan industry, and municipalities. Although the principles do not provide operational rules outlining exactly what should be done, they do provide a framework for considering federal financial assistance. By defining the problem, determining whether a legislative solution to that problem best serves the national interest, and—assuming that such a solution is appropriate—establishing an appropriate governance structure, Congress might better assure itself and the American people that the federal assistance will achieve its intended purpose.

Thank you Mr. Chairman, Ranking Member Bachus, and members of the committee for having me here today. We at GAO, of course, stand ready to assist you and your colleagues as you tackle these important challenges.

Contacts

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(541050)



STATEMENT OF:
THE UNION OF CONCERNED SCIENTISTS

BEFORE THE:
HOUSE COMMITTEE ON FINANCIAL SERVICES

BY
DAVID FRIEDMAN, RESEARCH DIRECTOR AND SENIOR ENGINEER

December 5, 2008

Mr. Chairman and Members of the Committee, I appreciate the opportunity to testify before you today. I am a research director and senior engineer with the Union of Concerned Scientists (UCS). UCS is a leading science-based nonprofit that has been working for a healthy environment and a safer world for over 30 years.

As an engineer, I hope to bring a different perspective to this hearing. But first, I would like to point to the perspective of the American taxpayers whose money would be on the line. As I am sure you are all aware, Americans have, by and large, lost confidence in the Detroit automakers. Recent polling indicates that over 60% of those polled oppose government financial assistance to automakers. This is despite the fact that half the cars and trucks sold this year (and significantly more than half on the road) were made by the Detroit 3.

There are a lot of reasons for this lack of confidence, but if this committee, the House, the Senate and the American people are going to support giving money to automakers, we need to find a way to ensure that it is NOT a bailout. Instead the package should be structured as an investment where taxpayers are given a very clear return.

To help rebuild that confidence, I would suggest 4 steps:

1. **Acknowledge what we already know:** that the future survival of the Detroit auto industry depends on the ability to deliver the products consumers need in a world of volatile oil prices and a changing climate. No matter how they restructure themselves, if automakers fail to produce millions of highly fuel efficient vehicles every year, they will not be able to compete and they will not become profitable.
2. **Require a return on taxpayer investment under Sections 404 and 405 of your draft bill:** To guarantee a financial benefit for taxpayers in return for financial assistance, automakers should be required comply with fuel economy standards three years early, as GM has effectively said it is going to do in the plan they just submitted. If the Detroit automakers met their projected 2015 fleetwide fuel economy three years early, we have done a rough estimate showing that consumers would see net savings of more than \$10 billion through 2020 and more than \$30 billion through 2025 even if gasoline averages just \$2 per gallon. If

they are not held to something higher than the existing standards, it could be interpreted as automakers being given taxpayer money to meet the law.

3. **Require that automakers not bite the hand that feeds them:** In return for taxpayer money, automakers should be obligated to drop lawsuits seeking to block states that want auto companies to deliver cleaner cars. These states, representing over 35% of taxpayers (likely soon to be more than 40% if and when Florida joins), are demanding cleaner cars through a single global warming pollution standard, and it would be a slap in the face to ask their residents to put up money to help an industry that is undermining their efforts. Further, if all of the Detroit automakers were required to follow a fuel economy plan similar to GM's, they could already be in a position to comply with California's standard.
4. **Preserve the EISA Section 136 advanced technology loan package and do not, even temporarily, bypass its modest requirement of a 25% increase in fuel economy for qualifying investments:** First, the automaker recovery plans are premised on using the Section 136 money to invest in advanced technology to help them meet or surpass the fuel economy requirements in EISA—that quid pro quo has already been established and should not be undermined. The relatively weak DOT regulatory target for 2015 fuel economy standards already requires more than a 25% increase in fuel economy, ensuring that most of the retooling investments automakers will be making in the next couple of years will qualify for this low bar. In fact, Ford noted in their submission to this committee that three quarters of their nameplates will already qualify by 2011. If there are other hurdles that limit automakers ability to access these funds perhaps the committee should consider how to address them, but clearly the fuel economy requirement is not one of them. If anything, submissions from Ford indicate that the DOE's interpretation of the EISA advanced technology criteria were too weak.

If these steps cannot come together as you seek to finalize a package over the next week, I suggest that you take advantage of the well-designed partitioning between short term and long term funds in your draft bill. You could limit a bailout package this month to help automakers only with the short term bridge funds and then develop a supplemental package for the long-term liquidity and restructuring that ensures that there is a guaranteed return on investment for taxpayers in return for the added financial assistance for automakers.

Mr. Chairman, the reason I am so focused on building confidence and ensuring a return on investment is because I had very mixed emotions in studying the automaker plans

There is a lot of reason for hope in some of the plans the automakers submitted. From a promise to essentially meet 2015 fuel economy requirements three years early to the planned introduction of a hybrid family car that beats the competition by at least six miles per gallon, the automakers appear to be laying out a more positive direction than they have followed in the past. Multiple references to the potential for "green jobs" and investments in plug-in hybrids, battery electric and other high tech vehicles sound encouraging. From what they wrote, it sounds like the automakers have bought in to the first of my proposed steps—that their future depends on more efficient, cleaner cars and trucks.

But these promises also sounded a bit too familiar. They sounded too much like the unfulfilled promise to deliver an 80 mpg family car or a commercially available hydrogen car in return for billions in R&D money under the Partnership for a New Generation of Vehicles and the FreedomCar program. They sounded like unfulfilled promises to deliver a 25% improvement in SUV fuel economy, hybrid trucks from a plant in Delaware, and a million fuel cell vehicles.

I honestly think the automakers that made these promises can carry them out. That has never been the question. Detroit's automakers already have the technologies to deliver cars and trucks that exceed proposed fuel economy standards. In addition to conventional technology improvements, their engineers are hard at work on hybrids, plugins and fuel cell vehicles. They have an extremely talented workforce and I am genuinely excited about the products they can produce. The question is not whether they can deliver, it is whether they will—their legacy of unfulfilled promises and repeated efforts to fight progress on fuel economy, advanced technology, and lower emissions means we cannot take them at their word. As the saying goes, fool me once, shame on you ... well, I think you know how that one goes.

The problem is not as simple as the current credit crisis tripping up an auto industry recovery process that was already well underway. The sales of Detroit's bread and butter SUVs had ALREADY been cut in half between 2002 and 2007. One gas guzzling model that had passed 400,000 in sales—outselling the most popular cars—struggled to sell more than 150,000 units in 2007, well before the credit crunch peaked. As a result of these and other factors, sales of imported vehicles grew by more than 1.25 million vehicles between 1999 and 2007 while domestic sales dropped by almost twice as much (2.2 million), leaving overall sales to drop by nearly 1 million vehicles. In other words domestic sales were hemorrhaging, along with the American jobs fueled by those sales, well before the credit crisis.

I have been a critic of the auto industry, so it probably does not surprise you to see me pointing out the risk in accepting them at their word. But I also strongly believe that we need a viable domestic auto industry to tackle America's oil addiction while avoiding the worst impacts of climate change. Without a domestic auto industry founded on a strong research, development and manufacturing base, we will not be in a position to supply even ourselves with the clean and efficient cars and trucks consumers need to save money and cut global warming pollution. We certainly won't be able to capitalize on the economic and political opportunities that would arise from being in a position to export these products and technology to countries like India and China so they can do their part to cut oil use and reduce global warming pollution.

In addition, our economy needs a broader stimulus and it will be important to address some of the weaknesses in our manufacturing and transportation systems when that package is put together. Among the greatest of ironies last year was that as gas prices skyrocketed, sales of hybrids from Ford actually fell. Sales of hybrids from Toyota, the industry leader on hybrids also fell. It was not because of a lack of interest, it was because there was insufficient capacity for manufacturing advanced batteries throughout the world and especially in the United States. We need to have the tools to fight the next oil and gas price spikes (which will come as the world economy recovers), so we should not only save our existing auto industry, but we will have to provide stimulus funds to expand manufacturing capacity for the advanced batteries, fuel cells and fuels our country needs for a stronger and cleaner economy. We also need stimulus funds to

dramatically expand public transportation which was also found wanting as consumer needs shifted. As with the current package, these stimulus funds must also be tied to guaranteed returns for consumers in the form of reduced oil use, reduced emissions and money saved.

If we avoid something that looks like an auto industry bailout, and instead invest in them while guaranteeing a return on our investment by requiring cleaner and more efficient cars and trucks, we will see tens of billions of dollars back in consumers pockets, cut gasoline use by nearly 30 40 billion gallons and avoid producing hundreds of billions of tons of global warming pollution. The best part is that we can do all of this while preserving and even creating jobs in the auto industry, rather than spending that money on imported oil. For the last several years, Detroit's business, energy and environmental strategies have not been good for America, but you have a chance to help change that today.

Thank you.

Table 1. Estimated returns on an investment to stabilize and provide liquidity for the Detroit automakers in return for meeting proposed fuel economy standards three years early.

| | Net Consumer Savings | Gasoline Savings (gallons) | Reduction in Global Warming Pollution (MMTCO ₂ -E) |
|-----------|----------------------|----------------------------|---|
| 2011-2020 | \$13 billion | 14 billion | 160 |
| 2011-2025 | \$32 billion | 28 billion | 310 |

TESTIMONY OF

**RON GETTELFINGER
PRESIDENT**

**INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE &
AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)**

on the subject of

**INDUSTRY PLANS TO STABILIZE THE FINANCIAL CONDITION OF
THE AMERICAN AUTOMOBILE INDUSTRY**

before the

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

December 5, 2008

Mr. Chairman, my name is Ron Gettelfinger. I am President of the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW). The UAW represents one million active and retired members, many of whom work for or receive retirement benefits from the Detroit-based auto companies and auto parts suppliers across the United States. We welcome the opportunity to appear before this Committee to present our views on industry plans to stabilize the financial condition of the American automobile industry.

The UAW believes the situation at GM, Ford and Chrysler is extremely dire. As is evident from the materials which have been submitted by the companies in response to the letter from Speaker Pelosi and Majority Leader Reid, it is imperative that the federal government act this month to provide an emergency bridge loan to the domestic auto companies. Without such assistance, GM could run out of funds by the end of the year, and Chrysler soon thereafter. These companies would then be forced to liquidate, ceasing all business operations. The collapse of these companies would inevitably drag down numerous auto parts suppliers, which in turn could lead to the collapse of Ford.

The UAW appreciates the desire by Congress, as expressed in the letter from Speaker Pelosi and Majority Leader Reid, to ensure that any assistance from the federal government is conditioned on strict accountability by the companies and a demonstration that they can be viable businesses in the future. We fully support both of these key principles.

Specifically, the UAW supports conditioning any emergency bridge loan on strict accountability measures, including:

- tough limits on executive compensation, prohibiting golden parachutes and other abuses, and making it clear that top executives must share in any sacrifices;
- a prohibition on dividend payments by the companies;
- giving the federal government an equity stake in the companies so that taxpayers are protected; and
- establishing an Advisory Board to oversee the operations of the companies to ensure that all funds from the emergency bridge loan are spent in the United States, that the companies are pursuing viable restructuring plans, and that the companies are meeting requirements to produce advanced, more fuel efficient vehicles.

We are prepared to work with Members of this Committee to incorporate other accountability requirements that may be appropriate.

In addition, the UAW supports conditioning any emergency bridge loan on the companies pursuing restructuring plans that will ensure the viability of their operations in the coming years. For such restructuring plans to succeed, we recognize that all stakeholders – equity and bondholders, suppliers, dealers, workers and retirees, and management – must come to the table and share in the sacrifices that will be needed.

The UAW and the workers and retirees we represent are prepared to do our part to ensure that the companies can continue as viable operations. As indicated in our previous testimony, workers and retirees have **already** stepped forward and made enormous sacrifices.

- In 2005 the UAW reopened its contract mid-term and accepted cuts in wages for active workers and health care benefits for retirees.
- In the 2007 contract the UAW agreed to slash wages for new workers by 50% to about \$14 per hour, and to exclude new workers from the traditional health care and pension plans. The UAW also allowed the companies to outsource cleaning work at even lower rates.
- Under the 2007 contract, beginning January 1, 2010 the liabilities for health care for existing retirees will be transferred from the companies to an independent VEBA fund. Taken together, the changes in the 2005 and 2007 contract reduced the companies' liabilities for retiree health care benefits by 50%.
- As a result of the 2005 and 2007 contracts, workers have not received any base wage increase since 2005 at GM and Ford, and since 2006 at Chrysler. All of these workers will not receive any increase through the end of the contract in 2011. Workers have also accepted reductions in cost of living adjustments.
- New local operating agreements at many facilities provided dramatic flexibilities and reductions in classifications, and have saved the companies billions of dollars.
- Reforms in the 2007 contract have largely eliminated the jobs banks.
- Since 2003 downsizing by the companies has reduced their workforce by 150,000, resulting in enormous savings for GM, Ford and Chrysler.

Thanks to the changes in the 2005 and 2007 contracts, and changes that have subsequently been agreed to by the UAW, the labor cost gap with the foreign transplant operations will be largely or completely eliminated when the contracts

are fully implemented. Industry observers applauded the sacrifices made by workers and retirees, calling the 2007 contract a "transformational" agreement.

The UAW is continuing to negotiate with the domestic auto companies on an ongoing basis over ways to make their operations more efficient and competitive. We recognize that the current crisis may require all stakeholders, including the workers and retirees, to make further sacrifices to ensure the future viability of the companies. We are willing to do our part. In particular, we recognize that the contributions owed by the companies to the retiree health care VEBA fund may need to be spread out. The UAW has retained outside experts to work with us on how this can be accomplished, while still protecting the retirees. We also recognize that adjustments may need to be made in other areas.

But the UAW vigorously opposes any attempt to make workers and retirees the scapegoats and to make them shoulder the entire burden of any restructuring. Wages and benefits only make up 10 percent of the costs of the domestic auto companies. So the current difficulties facing the Detroit-based auto companies cannot be blamed on workers and retirees.

Contrary to an often-repeated myth, UAW members at GM, Ford and Chrysler are not paid \$73 an hour. The truth is, wages for UAW members range from about \$14 per hour for newly hired workers to \$28 per hour for assemblers. The \$73 an hour figure is outdated and inaccurate. It includes not only the costs of health care, pensions and other compensation for current workers, but also includes the costs of pensions and health care for all of the retired workers, spread out over the active workforce. Obviously, active workers do not receive any of this compensation, so it is simply not accurate to describe it as part of their "earnings." Furthermore, as previously indicated, the overall labor costs at the Detroit-based auto companies were dramatically lowered by the changes in the 2005 and 2007 contracts, which largely or completely eliminated the gap with the foreign transplant operations.

The UAW submits that it is not feasible for Congress to hammer out the details of a complete restructuring plan during the coming week. There is simply not enough time to work through the many difficult and complex issues associated with all of the key stakeholders, including equity and bondholders, suppliers, dealers, management, workers and retirees, as well as changes in the business operations of the companies.

What Congress can and should do is to put in place a process that will require all of the stakeholders to participate in a restructuring of the companies outside of bankruptcy. This process should ensure that there is fairness in the sacrifices, and that the companies will be able to continue as viable business operations. This process can begin immediately under the supervision of the next administration. By doing this, Congress can make sure that the emergency assistance is indeed a bridge to a brighter future.

Contrary to the assertions by some commentators, in the current environment a Chapter 11 reorganization – even a so-called “pre-packaged” bankruptcy – is simply not a viable option for restructuring the Detroit-based auto companies. As previously indicated, research has indicated that the public will not buy vehicles from a company in bankruptcy. It also is doubtful that the companies could obtain debtor-in-possession financing to operate during a bankruptcy. In addition, attached to this testimony is a more detailed analysis prepared with the assistance of experienced bankruptcy practitioners explaining why a “pre-packaged” bankruptcy is not a feasible option for the domestic auto companies because of the size and complexity of the issues that would necessarily be involved in any restructuring, including relationships with thousands of dealers and suppliers and major changes in business operations. Thus, the UAW wishes to underscore that any bankruptcy filings by the domestic auto companies at this time would inevitably lead to Chapter 7 liquidations and the cessation of all business operations.

The collapse of the domestic auto companies would have disastrous consequences for millions of workers and retirees and for the entire country.

- Hundreds of thousands of workers would directly lose their jobs at GM, Ford and Chrysler, and a total of three million workers would see their jobs eliminated at suppliers, dealerships and the thousands of other businesses that depend on the auto industry.
- One million retirees could lose part of their pension benefits, and would also face the complete elimination of their health insurance coverage, an especially harsh blow to the 40 percent who are younger than 65 and not yet eligible for Medicare.
- The Pension Benefit Guarantee Corporation could be saddled with enormous pension liabilities, jeopardizing its ability to protect the pensions of millions of other workers and retirees. To prevent this from happening, the federal government could be forced to pay for a costly bailout of the PBGC. The federal government would also be liable for a 65% health care tax credit for pre-65 retirees from the auto companies, at a cost of as much as \$2 billion per year.
- Revenues to the federal, state and local governments would drop sharply, forcing cuts in vital social services at a time when they are urgently needed.
- The ripple effects from the collapse of the Detroit-based auto companies would deal a serious blow to the entire economy, making the current recession much deeper and longer.

- There also would be a serious negative impact on many financial institutions that hold large amounts of debt from the Detroit-based auto companies and their auto finance associates. This could pose a systemic danger to our already weakened financial sector.

For all of these reasons, the UAW submits it is imperative that Congress and the Bush administration act next week to provide an emergency bridge loan to the Detroit-based auto companies. The consequences of inaction are simply too devastating; the economic and human toll are too costly.

The UAW believes that the recent actions by the federal government to provide an enormous bailout to Citigroup reinforce the case for providing an emergency bridge loan to the Detroit-based auto companies. The total assistance provided to Citigroup will dwarf that being sought by the domestic auto companies. Citigroup received this assistance without being required to submit any "plan" for changing its operations or demonstrating its future viability. It was not required to change its management. And it is still able to continue paying bonuses and other forms of lucrative executive compensation.

If the federal government can provide this type of blank check to Wall Street, the UAW submits that Main Street is no less deserving of assistance. Since the domestic auto companies have come forward with detailed plans relating to accountability and their future viability, there is simply no justification for withholding the emergency bridge loan that is necessary for them to continue operations.

The UAW also notes that other governments around the world are actively considering programs to provide emergency assistance to their auto industries. In particular, the European Union is considering a \$51 billion loan program for automakers. And there are ongoing discussions with Germany, Great Britain, Sweden, Belgium, Poland, South Korea, China and other nations about steps their governments can take to assist their auto industries. Clearly, other governments recognize the economic importance of maintaining their auto industries. The UAW submits that the economic importance of GM, Ford and Chrysler to the U.S. economy is no less important and no less deserving of assistance.

It is not enough, however, for the federal government to provide an emergency bridge loan to the Detroit-based auto companies, and to oversee and facilitate the restructuring of the companies. The 111th Congress and the Obama administration have a responsibility to pursue policies in a number of areas that will be critically important to the future viability of the domestic auto companies, as well as the well being of our entire nation.

First, the UAW is very pleased that Congressional leaders and the Obama transition staff are already making plans to move forward quickly with a major

economic stimulus package that will create jobs and give a boost to the entire economy. We believe this is urgently needed to prevent the economy from slipping into a deeper and more serious recession. This is particularly important for the auto sector. In order for the Detroit-based auto companies to succeed, it is vital that auto sales rebound from the record low levels we have seen in recent months. The single most important thing that can be done to increase auto sales is to reinvigorate the overall economy.

Second, the UAW believes it is critically important that Congress and the Obama administration move forward quickly with plans to reform our broken health care system, and to put in place programs that will guarantee health insurance coverage for all Americans, contain costs, ensure quality of care, and establish more equitable financing mechanisms. In particular, we believe any health care reform initiative should include proposals to address the challenges associated with providing health care to the pre-Medicare population aged 55-65.

There can be no doubt that one of the major financial challenges facing the Detroit-based auto companies in future years is the cost of providing health care to almost a million retirees. Although the 2005 and 2007 contracts greatly reduced the companies' retiree health care liabilities, they are still enormous and a major problem that hinders the ability of the companies to obtain financing from private lenders.

All of the other major auto producing nations have national health care systems that spread the costs of providing health care across their societies. As a result, the automakers in these countries are not burdened by retiree health care legacy costs. Accordingly, the UAW is hopeful that the enactment of national health care reform in the United States would help to establish a level playing field among all employers, and alleviate the retiree health care legacy costs facing the Detroit-based auto companies.

Third, during the coming year Congress and the Obama administration are likely to consider major new initiatives dealing with energy security and climate change. The UAW strongly supports prompt action in both of these vital areas. Specifically, besides requiring automakers to comply with the tougher new fuel economy standards that were enacted in 2007, we believe Congress and the Obama administration should take steps to ensure that fuel economy improvements continue in the years following 2020, and that the companies move expeditiously to introduce advanced technology vehicles. In particular, we support an aggressive program to increase domestic production of plug-in hybrids and their key components, and to expand the infrastructure that will be needed to support these vehicles. To help achieve these objectives, Congress and the Obama administration should make sure that the Section 136 Advanced Technology Vehicles Manufacturing Incentive Program (ATVMIP) continues to be fully funded, and that additional resources are provided to ensure that production of advanced, more fuel efficient vehicles and their key components is ramped up

quickly. In addition, the UAW strongly supports the enactment of an economy-wide cap-and-trade program to aggressively reduce emissions of greenhouse gases that are causing climate change.

Although these initiatives pose challenges for the auto industry, the UAW also believes they can provide great opportunities. Properly structured, these initiatives can not only ensure that our nation reduces its consumption of oil and emissions of greenhouse gas emissions. They also can ensure that the more fuel efficient vehicles of the future and their key components are built in the United States by the domestic auto companies and American workers. In effect, these initiatives can be an important part of the restructuring that is necessary to ensure the future viability of the domestic auto companies.

Fourth, Congress and the Obama administration must make sure that our nation's trade policies promote fair trade, not so-called "free trade" that fails to provide a level playing field and instead places our domestic automakers at a significant competitive disadvantage. In particular, prompt action needs to be taken to eliminate unfair currency manipulation by China and Japan. In addition, Congress and the Obama administration should insist that the U.S.-Korea free trade agreement must be renegotiated to require that Korea dismantle the non-tariff barriers that have kept its market closed to U.S.-built automotive products, before it is granted any further access to the U.S. market.

By pursuing all of these policies, Congress and the Obama administration can benefit our entire country. The UAW also believes that these policies can provide a basis under which a restructured domestic auto industry can remain viable and strong in the coming years.

In conclusion, the UAW appreciates the opportunity to testify before this Committee on industry plans to stabilize the financial condition of the American automobile industry. We strongly urge this Committee and the entire Congress to act promptly to approve an emergency bridge loan to the Detroit-based auto companies to enable them to continue operations and to avoid the disastrous consequences that their liquidation would involve for millions of workers and retirees and for our entire nation.

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**Pre-Packaged Bankruptcy Is Not the Path to Revitalize
the Domestic Auto Companies**

Some commentators have suggested a pre-packaged bankruptcy as an alternative to (or as part of) government-backed relief for the domestic auto companies. But the promoters have not explained how pre-packaged bankruptcy procedures can be successfully brought to bear in a case with the complexity and scope of one or all of the Detroit-based auto companies. Indeed, bankruptcy experts are skeptical that pre-packaged bankruptcy can work. As one noted business writer who has consulted with bankruptcy experts has concluded, "it makes no sense."¹

In a pre-packaged bankruptcy, a company negotiates a financial restructuring with its major creditors outside of bankruptcy, lines up all or most of its major creditors in support of the proposed debt restructuring, and then uses the bankruptcy process to achieve a quick, consensual approval of its repayment plan. Any minority, dissenting creditors are out-voted by the pre-arranged majority support for the plan. Bankruptcy law permits pre-packaged deals as an efficient form of business restructuring.

Pre-packs can work with **financial** restructurings, i.e., those that do *not* involve substantial operational issues. Where a company must restructure its balance sheet, but the business is otherwise sound, large creditors holding secured and unsecured debt are more likely to agree on the business fundamentals, and therefore more likely to reach a negotiated agreement on restructuring terms -- for example, swapping debt for equity or extending debt maturities. But the domestic automobile manufacturers are in the midst of a much broader restructuring which is, to a large degree, operational. They are shifting their product mix; they are developing new-technology vehicles; and they are revamping their production locations. None of these issues can realistically be addressed in a pre-packaged bankruptcy, which is aimed at obtaining the consent of creditors to renegotiated terms on their financial debt instruments. Pre-packs were not intended for operational restructuring scenarios.

In fact, no one has explained how the basic elements of a pre-packaged bankruptcy can be achieved in the case of the domestic auto companies. Who are the debt holders, and can enough of them agree on negotiated terms? The *New York Times* reports that the domestic automakers owe more than \$100 billion to banks and bondholders. The originating banks have probably syndicated, or sold off, pieces of the debt to others. Some \$56 billion in new debt securities was reportedly issued to investors such as pension funds, insurance

¹ Joe Nocera, "Road Ahead is Long for G.M.," *The New York Times*, November 22, 2008.

companies and hedge funds.² For a pre-packaged bankruptcy to work – or even get organized – the lion's share of the outstanding debt holders need to be identified, agree to come to the table, and then agree on restructuring terms. This process would be a lengthy and expensive one, undertaken in an uncertain and weak economic environment.

The same types of problems would exist for other claimants. The various creditors engaged in the process would likely want to see a business plan before negotiating restructured terms. Thus, the pre-packaged bankruptcy would be the proverbial tail wagging the dog. Assumptions made by some proponents of a pre-pack about whether stakeholders will participate in a pre-packaged effort and what the likely outcomes would be are unsupported supposition. Also unanswered are questions about how a bankruptcy filing would deal with GMAC and the other auto finance entities or the companies' overseas operations.

A pre-packaged bankruptcy could disintegrate into a regular, contested bankruptcy proceeding. First, the likelihood of obtaining the requisite consents is already challenged by the size, potential scope, and lack of transparency of the debt holders. Second, pre-packs must follow solicitation rules which are governed by securities laws, not bankruptcy law. The company would have to put together a solicitation that successfully navigates these rules. And, once in bankruptcy court, the efficient nature of the approval process would depend on sufficient compliance with the solicitation rules, and a sufficient supporting majority, to overcome challenges by dissenting creditors or others. If the approval process became prolonged, then the advantages of speed and efficiency would be lost.

Pre-packaged bankruptcy would not eliminate the risks associated with a bankruptcy filing. It would not eliminate the threat of systemic risk resulting from the effects of a bankruptcy by one or all of the domestic automakers on the financial markets.³ Moreover, a pre-packaged bankruptcy is still a bankruptcy as far as customers are concerned. The promoters have not explained how pre-packaged bankruptcy would allay the concerns of the majority of consumers who have said they would not buy an automobile from a company in bankruptcy. Given this consumer reaction, a bankruptcy filing by any one of the domestic automakers in the current environment is a dangerous "bet the economy" proposition.

None of the elements of an auto industry restructuring *require* a bankruptcy proceeding. Restructuring milestones, repayment terms, taxpayer protections and other conditions of a loan can be established through legislation. Moreover, legislation can establish a process under which the actual restructuring of the

² Zachary Kouwe and Louse Story, "Big Three's Troubles May Touch Financial Sector," *The New York Times*, November 24, 2008

³ Zachary Kouwe and Louse Story, "Big Three's Troubles May Touch Financial Sector," *The New York Times*, November 24, 2008

domestic auto companies is supervised by the next administration. This can ensure that all stakeholders come to the table and share in the sacrifices that will be required, and that the domestic auto companies will be viable businesses after the restructuring is completed. In contrast, putting the fate of an auto industry restructuring in the hands of a bankruptcy court, even if a pre-packaged plan were realistically possible, would put narrow creditor interests ahead of all other stakeholders and ahead of important national concerns, including health care and pension policy, energy and transportation policy, and the negative effects of the economic downturn. These are interests that must be addressed and balanced by our elected government.

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Testimony of Damon Lester, President

National Association of Minority Automobile Dealers (NAMAD)

Before the House Financial Services Committee

Hearing on

December 5, 2008

Thank you Chairman Frank and members of the Committee

I want to thank you for inviting me to speak on behalf of the small new automobile dealers in the United States.

My name is Damon Lester, and I am the President of the National Association of Minority Automobile Dealers (NAMAD). NAMAD represents over 2,000 ethnic minority automobile dealers which represent less than five percent of the overall automobile dealer network in the United States.

However, I am here today not simply to talk about ethnic minority automobile dealers but the owners of all small dealerships in the country, as the automobile industry, and this economy is facing a complete global economic meltdown. Today, small dealerships through out the United States are suffering at an alarming rate and are running out of cash, and will close their doors if access to capital is not provided to them immediately. As it is the belief of the majority of the small dealerships that they can make it through this economic turmoil that this country and the world is facing if they are provided access to capital, as many of these dealers are convinced that they can ride out this storm that this industry and this economy is facing and survive, if capital is provided.

While NAMAD supports the Bridge Loan request made by the Chrysler Corporation, Ford Motor Company, and General Motors Corporation; we also believe that fair consideration should also be given to those small dealerships who sell the products that the manufacturer produces. There is a direct correlation between the success of a healthy manufacturer and a healthy and profitable dealership. We support the request made by Congress for the Detroit Big 3 to come up with a plan depicting how they are going to manage the requested funds and how a they are going to restructure, is a good thing, its good for the manufacturers to reduce to writing their plan and its good for America to see how these manufacturers will spend our tax dollars. We support the need for more fuel efficient vehicles, we support the concessions made by the UAW as well. As all of these efforts provide a blue print on how the manufacturer will and has revamped its operations.

However, we are concerned about the story that has been touched on briefly. That story is the small dealer. Without the dealerships operating effectively, without the manufacturer having as strong consumer confidence in the brands and the corporation, consumers will not purchase a vehicle. As I have reviewed the plans submitted by the Detroit Big 3, which focus on both short and long-term viability of their respective companies. I am extremely concerned with some of the language that was alluded to in the proposals of having an excess number of dealerships. We believe that deserves some review, via the locations that these dealerships serve, the lines of vehicles that the dealerships carry, and the overall economic infrastructure of the areas in which the dealerships serve. As both Ford Motor Company and General Motors Corporation have mentioned the consolidation of there stores.

Now what does consolidation mean? Does it mean dealers partnering up together to combine a store? One could believe that this is a merger of stores. In fact what this really means is that its forcing in many instances a smaller dealership to buy up a larger dealership. For example, under the General Motors model, if a town has a family owned dealership that sells Pontiac and GMC, General Motors wants that small dealership to 1) approach the local dealer that sells Buicks and present him/or her with an offer to buy; or 2) that Buick dealer has to approach the small family owned dealer to buy out his/her Pontiac and GMC dealership, in order to combine all three brands under one roof. This in many situations today, have provided opportunities for large dealer groups to buy out the small family owned dealership merely because of who has the most access to capital.

As all small dealerships in rural and suburban America on average employ over 53 employees and generate over \$33 million gross annual sales. A small dealership is the true "Main Street", these dealerships provide so much to the communities that they serve that if a dealership closes its doors today:

- the local churches that the dealership contributes to on a monthly basis will suffer;
- that local school and summer athletic teams will suffer;
- that local 4-H and Lion's Club will suffer;
- that the local boys and girls scouts club will suffer;
- that local print and television companies will suffer

This is what the real "Main Street" is all about, grass roots roll up your sleeves and becoming active in your community, that's what America is about small business feeding the communities they serve.

As this congress is considering the request for immediate capital and liquidity by the Detroit Big 3, fair consideration and attention must also be given to the small dealerships. One very simple way to provide access to capital to these small dealerships is by the Small Business Administration (SBA) loan guarantee programs. It has come to my attention that in the past 10 years the SBA loan guarantee program has been short changed and its attempts to fund it. In fact, by just modifying the definition of who is eligible for the loan guarantee program would help small dealerships. Currently, the size standard, which is the definition used by the SBA to determine whether or not a business is deemed small is stated either as the number of employees or average annual receipts of a business. As it relates to automobile dealers the size standard is currently \$29 million in average annual receipts. We believe if the size standard was modified to reflect a one hundred employee base model would provide greater assistance for theses small dealerships survival. It is our hope that the loan guarantee would provide more assurance for financial institutions to begin lending to automobile dealers.

We understand that with any financial assistance program not all will be saved. But we truly believe that those dealers who have been historically profitable but are now going out of business for the lack of access to capital can survive. I believe that if there were an increase in the SBA loan guarantee program of \$1 Billion from the TARP which is dedicated to provide assistance to small dealerships would potentially cover 80% of those

dealerships running out of cash now and being forced to close their doors. This loan guarantee will provide assistance to those rural and suburban dealers located in Alabama, Kansas, Georgia, Texas, Massachusetts, and Kentucky, just to name a few.

In addition, I would recommend that \$1 billion of TARP dollars from the manufacturers requested funds be directed to support small dealerships with the stipulation that these funds must be used to purchase real estate, equipment, and provide job training in the dealerships.

On behalf of the National Association of Minority Automobile Dealers I want to thank the Detroit Big 3 for opening the doors for the diversity we now see among the small automobile dealers through its dealer development programs. As the Detroit Big 3 paved the way for majority of all of the current diversity within the import dealers today. It is our hope that these programs continue to provide opportunities for individuals to become new automobile dealers in the very near future.

At a time when this industry, this country, and the world is facing this economic turmoil. I urge this Congress to move quickly to provide immediate assistance to the Detroit Big 3 and to the small dealerships.

Thank you, I would be happy to answer any questions you may have.

**Testimony of Alan R. Mulally
President and Chief Executive Officer, Ford Motor Company
House Committee on Financial Services
December 5, 2008**

Chairman Frank, Ranking Member Bachus, and members of the Committee. Thank you for the opportunity to share Ford's plan. We appreciate the valid concerns raised by Congress about the future viability of the industry. We hope that our submission and today's testimony will help instill confidence in Ford's commitment to change, including our accountability and shared sacrifice during this difficult economic period.

On Tuesday, Ford Motor Company submitted to your Committee our comprehensive business plan, which details the company's path to profitability through an acceleration of our aggressive restructuring actions and the introduction of more high-quality, safe and fuel-efficient vehicles – including a broader range of hybrid-electric vehicles and the introduction of advanced plug-in hybrids and full electric vehicles.

In addition to our plan, we are also here today to request support for the industry. In the near-term, Ford does not require access to a government bridge loan. However, we request a credit line of \$9 billion as a critical backstop or safeguard against worsening conditions as we drive transformational change in our company.

One Plan: Beginning earlier this decade, we recognized the challenges the domestic auto industry faced and began implementing a disciplined global business plan to completely transform Ford, to improve our efficiency, cut costs and champion innovation. Our plan builds on the success we have seen in the past two years by accelerating the development of our new products that customers want and value. Our plan is anchored by four key priorities:

- Aggressively restructure to operate profitably at the current demand and changing model mix;
- Accelerate development of new products our customers want and value;
- Finance our plan and improve our balance sheet; and
- Work together effectively as one team, leveraging our global assets.

One Goal: Our team and plan is dedicated and focused on delivering profitable growth for all. While market, economic and business conditions recently have deteriorated worldwide at a rate never before seen, we have made substantial progress since we launched our plan in late 2006:

- We obtained financing by going to the markets in December 2006 to raise \$23.5 billion in liquidity, consisting of \$18.5 billion of senior secured debt and credit facilities, substantially secured by all of our domestic assets, and \$5 billion of unsecured convertible debt.
- We have implemented our strategy to simplify our brand structure. As a result, we sold Aston Martin, Jaguar, Land Rover and the majority of our ownership of Mazda, and we're considering our options for Volvo. We have divested other non-core assets. These sales

have also helped our overall liquidity and generated \$3.7 billion in additional capital to re-invest in the business.

- To achieve maximum efficiency, we will have reduced our North American operating costs by more than \$5 billion between year end 2005 and 2008.
- We have taken painful downsizing actions to match capacity and market share in North America, including closing 17 plants and downsizing by 12,000 salaried employees and 44,000 hourly employees.

Ford is committed to building a sustainable future for the benefit of all Americans, and we believe Ford is on the right path to achieve this vision. I know the Members of the Committee have had an opportunity to review our plans over the last few days, so I will highlight new details about Ford's future plans and forecasts:

- Ford's plan calls for an investment of approximately \$14 billion in the U.S. on advanced technologies and products to improve fuel efficiency during the next seven years.
- Based on current business planning assumptions – including U.S. industry sales for 2009, 2010 and 2011 of 12.5 million units, 14.5 million units and 15.5 million units, respectively – Ford expects both our overall and our North American automotive business pre-tax results to be breakeven or profitable in 2011.
- As part of a continuing focus on building the Ford brand, we are exploring strategic options for Volvo Car Corporation, including the possible sale of the Sweden-based premium automaker. The strategic review is in line with a broad range of actions we are taking to focus on the Ford brand and ensure we have the resources to fund our plan. Since 2007, Ford has sold Aston Martin, Jaguar, Land Rover and the majority of its stake in Mazda.
- Half of the Ford, Lincoln and Mercury light-duty nameplates by 2010 will qualify as "Advanced Technology Vehicles" under the U.S. Energy Independence and Security Act – increasing to 75 percent in 2011 and more than 90 percent in 2014. We have included these projects in our application to the Department of Energy for loans under that Act and we hope to receive \$5 billion in direct loans by 2011 to support Ford's investment in advanced technologies and products.
- From our largest light duty trucks to our smallest cars, Ford will improve the fuel economy of our fleet an average of 14 percent for 2009 models, 26 percent for 2012 models and 36 percent for 2015 models – compared with the fuel economy of its 2005 fleet. Overall, we expect to achieve cumulative gasoline fuel savings from advanced technology vehicles of 16 billion gallons from 2005 to 2015.
- Next month at the North American International Auto Show in Detroit, we will discuss in detail Ford's accelerated vehicle electrification plan, which includes bringing a family of hybrids, plug-in hybrids and battery electric vehicles to market by 2012. The work will include partnering with battery and powertrain systems suppliers to deliver a full battery electric vehicle (BEV) in a van-type vehicle for commercial fleet use in 2010 and a BEV

sedan in 2011. We will develop these vehicles in a manner that enables it to reduce costs and ultimately make BEVs more affordable for consumers.

- The 2007 UAW-Ford labor agreement resulted in significant progress being made in reducing the company's total labor cost. Given the present economic crisis and its impact upon the automotive industry, however, we are presently engaged in discussions with the UAW with the objective to further reduce our cost structure and eliminate the remaining labor cost gap that exists between Ford and the transplants.
- As previously announced, Ford plans two additional plant closures this quarter and four additional plant closures between 2009 and 2011. We have announced our intent to close or sell what will be four remaining ACH plants. And we will continue to aggressively match manufacturing capacity to real demand.
- Ford will continue to work to reduce its dealer and supplier base to increase efficiency and promote mutual profitability. By year end, we estimate we will have 3,790 U.S. dealers, a reduction of 606 dealers overall – or 14 percent from year-end 2005 – including a reduction of 16 percent in large markets. In addition, Ford has been able to reduce the number of production suppliers eligible for major sourcing from 3,400 in 2004 to approximately 1,600 today, a reduction of 53 percent. We eventually plan to further reduce the number of suppliers eligible for major sourcing to 750.
- After reducing our workforce by 50 percent in just three years, we are also canceling all bonuses and merit increases for North America salaried employees – including top management – in 2009. And should Ford need to access funds from a potential government bridge loan, I will work for a salary of \$1 a year – as a sign of my confidence in the company's transformation plan and future.
- We are moving ahead with plans we announced this summer to leverage the company's global product strengths and bring more small, fuel-efficient vehicles to the U.S. The plan includes delivering best-in-class or among the best fuel economy with every new vehicle introduced. We are also introducing industry-leading, fuel-saving EcoBoost engines and doubling the number and volume of hybrid vehicles.
- This product acceleration will result in a balanced product portfolio with a complete family of small, medium and large cars, utilities and trucks. And we are increasing our investment in cars and crossovers from approximately 60 percent in 2007 to 80 percent of our total product investment in 2010.

Our plan is working, but there is clearly more to do – something that is increasingly difficult in this tough economic climate. That is why we are seeking access to a \$9 billion bridge loan, even though we hope to complete our transformation without accessing any of these funds.

Despite the serious global economic downturn, Ford does not anticipate a liquidity crisis in 2009 – barring a bankruptcy by one of our domestic competitors or a more severe economic downturn that would further cripple automotive sales and create additional cash challenges.

In particular, the collapse of one or both of our domestic competitors would threaten Ford because we have 80 percent overlap in supplier networks and nearly 25 percent of Ford's top dealers also own GM and Chrysler franchises.

The impact of a bankruptcy also reaches beyond Ford and the U.S. auto industry. It would cause further stress to our domestic banking industry and private retirement systems. Goldman Sachs estimates the impact at up to \$1 trillion.

We also believe effective restructuring involves a broader dialogue with all our stakeholders. President-elect Obama has indicated an interest in such a discussion. There are a number of complicated questions that will need to be considered, for example:

- How do we create a dealer body that meets market demand and is profitable for all?
- How do we develop a healthy and viable supplier base?
- How do we work with the UAW to ensure that our cost structure is competitive with the foreign transplants?
- How do we address the significant debt obligation of the domestic industry?

We are prepared to work together with this Committee and all of the parties to address these critical issues as part of our plan.

Ford has a comprehensive transformation plan that will ensure our future viability – as evidenced by our profitability in the first quarter of 2008. While we clearly still have much more to do, I am more convinced than ever that we have the right plan that will create a viable Ford going forward and position us for profitable growth.

Thank you.



FORD MOTOR COMPANY BUSINESS PLAN

**SUBMITTED TO THE
HOUSE FINANCIAL SERVICES COMMITTEE**

December 2, 2008

INTRODUCTION

Ford Motor Company welcomes the opportunity to submit our Plan to the House Financial Services Committee, and appreciates the time and attention Congress is devoting to the critical issues that confront the domestic automotive industry in the current economic environment.

In this submission, we first provide an overview of the current business environment, then discuss our Plan for viability, and conclude by answering the specific questions posed in the correspondence received from Speaker of the House Nancy Pelosi and Senate Majority Leader Harry Reid.

We all have a shared interest in protecting American jobs, a vital American industry and American innovation. As the Committee knows so well, the ongoing economic and credit crisis has affected many Americans – from losing their jobs to losing their homes. The recession also has had very negative ramifications for the U.S. auto industry, which supports five million jobs in all 50 states and spends \$12 billion annually on research and development in the U.S. – more than any other industry.

We fully appreciate that the industry needs to transform itself to better compete by developing safer, greener and even better quality vehicles. We recognize Congress' important role as guardian of the American taxpayers, and we hope in our submission that we address your valid concerns about our potential for future viability and restore your confidence in our commitment to bring change and accountability.

While we have much more work ahead of us, Ford did not wait until the current crisis to begin our restructuring efforts, but has already begun a fundamental restructuring in the way we do business. Our early efforts showed promise before the credit and economic crises hit earlier this year.

As a company and as an industry, we readily admit that we have made our share of mistakes and miscalculations in the past. We would ask Congress to recognize, however, that Ford did not wait until the current crisis to begin our restructuring efforts, and that much of what we describe below are actions we have taken and decisions we have made about the future that have already put us on a path to long-term viability. During the past several years, Ford has begun a fundamental restructuring in the way we do business – a restructuring that, as described more fully below, affects every part of our business, including product innovation, fuel efficiency, labor relations, suppliers, and dealers. In

short, Ford recognized that our business model needed to change, and we are changing it. We share Congress' concern that our industry needs an aggressive restructuring, and we at Ford already have undertaken many of the decisive actions that we believe are necessary to ensure our future success.

In fact, Ford was profitable in the first quarter of 2008 before the credit and broader economic crisis rapidly and dramatically shrunk demand for automobiles to a 25 year low. That's why we respectfully ask Congress to work with us to provide temporary access to loans that, if needed, will help us continue to restructure in this difficult economic period.

We note that Ford is in a different situation from our competitors, in that we believe our Company has the necessary liquidity to weather this current economic downturn – assuming that it is of limited duration. If the downturn is longer and deeper than we now anticipate, however, access to government financing would be important to help us be able to continue to implement our Plan and benefit when the economic recovery inevitably arrives. While we hope we do not have to access the loans, we believe it is critically important that loans are available to us and the domestic auto industry.

In addition, the credit markets currently remain frozen and are not available to finance the industry's cyclical needs. This means that our liquidity through 2009 could come under increasing pressure if a significant industry event, such as a bankruptcy of one of our competitors, causes a disruption to our supply base, dealers and creditors.

We are acutely aware that our domestic competitors are, by their own reporting, at risk of running out of cash in a matter of weeks or months. Our industry is an interdependent one. We have 80 percent overlap in supplier networks. Nearly 25 percent of Ford's top dealers also own GM and Chrysler franchises. That is why the collapse of one or both of our domestic competitors would also threaten Ford.

For Ford, the availability of a government line of credit would serve as a critical backstop or safeguard against these conditions as we drive transformational change in our Company. Accordingly, given the significant economic and market risks that exist, Ford respectfully requests that government funding be made available to us, in the form of a "stand-by" line of credit, in the amount of up to \$9 billion. This line of credit would be a back-stop to be used only if conditions worsen further and only to the extent needed.

Our recommended terms of the loan would be: (i) at government borrowing rates; (ii) a revolving credit line with a ten year duration; and (iii) with additional conditions consistent with the TARP legislation.

Ford's Request:

***A "stand-by" line of credit in the amount of up to \$9 billion
at Government borrowing rates, for a 10 year term, with TARP conditions,
to support our restructuring, including the acceleration of products
that consumers want and value.***

THE CURRENT BUSINESS ENVIRONMENT

The United States economy is in a recession. The financial crisis, the worst in several decades, has exacerbated the downturn and diminished economic growth prospects in the months ahead.

The auto sector is one of the first to suffer from bad economic conditions – indeed, spending on new vehicles historically represents about 4% of GDP and therefore is closely tied to economic conditions. As the financial crisis persists, both credit availability and consumers' weakened confidence have contributed to a drastic decline in vehicle sales. There has been a broad-based tightening of origination and underwriting standards for automotive financing, spreading beyond the sub-prime arena to affect many prime borrowers as well. The Federal Reserve Senior Loan Officers' survey shows that banks' willingness to extend consumer installment loans has only been weaker at one time in the past 30 years, and that was in June of 1980. Over 60% of banks have tightened standards for consumer credit.

The forward economic outlook is also negative, with a wide range of possible outcomes due to the uncertain financial market environment. Real GDP is projected to decline significantly in the current quarter, as much as 4% or more as compared to the prior quarter (at an annualized rate). Consumer confidence is the weakest since the early 1980s, with nearly three in four consumers expecting the recession to deepen in the months ahead, according to the recent Survey of Consumers report released by Reuters/University of Michigan.

The economy is projected to contract through the first half of 2009, with a peak-to-trough decline in real GDP in the 2.0% to 2.5% range. The housing sector decline, as measured by housing starts and sales, is expected to weaken somewhat from already low levels.

Spending by consumers has already fallen at an annual rate of nearly 4% in the third quarter (as compared to the second quarter). A further contraction in consumer spending is underway in the current quarter, with an additional step down likely in the first quarter of 2009. Consumers are weighing likely further employment declines and responding by increasing their saving rates and pulling back on purchases, especially of durable goods such as automobiles.

The financial crisis, now 16 months old, persists. Despite the actions taken by the Federal Government and the Federal Reserve (and other governmental institutions around the world), there is no near-term end in sight. Government actions to encourage consumer lending and open capital markets have, in our view, been of limited effectiveness to date, as banks have retained government support to improve their financial leverage and shore up their own financial health rather than using it to make resources available to businesses and consumers. The present credit environment has

severely limited consumer and commercial access to financing and negatively impacted both consumer confidence and spending.

The recession and financial crisis has resulted in automotive industry sales volumes at the lowest annualized level in 25 years.

The impact of the credit crisis has been acutely felt in the domestic automotive industry. October 2008 U.S. industry sales volumes were at the lowest annualized level in 25 years, and down 34% from 2007, and November sales are tracking at similar low rates. Compared with the first quarter of 2008, the industry annual running rate in October has fallen by 31%, which roughly equates to an annual

industry selling decrease of almost five million units. Moreover, this sales decline occurred over a short period of time, making it virtually impossible for manufacturers to reduce their costs to match the precipitous revenue decline. Ford has responded aggressively by reducing production to meet demand, but this responsible action puts additional pressure on our business by decreasing our cash reserves as payables continue to come due while revenues decline.

In addition, we now believe that the global economic and industry downturn will be broader, deeper and longer than previously expected, with industry volumes in 2009 expected to decline from the low levels of 2008. Our suppliers and dealers, already stressed, will be under increasing pressure. Moreover, continuing turbulence in the U.S. and worldwide economies and tight credit markets will continue to undermine consumer confidence and impact our business.

The credit environment has severely limited the ability of Ford Motor Credit Company to support dealer and consumer financing needs.

The present credit environment also has severely limited the ability of the automotive finance companies like Ford Motor Credit Company to access the public debt and securitization markets, and is significantly impairing our ability to support dealer and consumer financing needs. Banks and investors are exhibiting an aversion to risk and a willingness to invest in only the highest-quality

financing instruments, and preferably in government instruments or government-guaranteed debt. This risk aversion has expanded to a level where it is challenging to find financial counterparties to transact even simple interest rate and currency swaps, further contributing to a significant slowing of U.S. economic activity. These issues have further constrained the cash available from Ford's normally profitable automotive finance company to support our automotive business.

It is in the face of the deepening economic and credit crisis that Ford is asking the Government to make assistance available to the domestic automotive industry even though we have a Plan for our future which, with exception to Department of Energy funding under Section 136, does not assume government assistance. We do so for at least four reasons.

First, we are acutely aware that our supply base, our labor structure, and our dealer network, among other factors, are sized for an industry and a market share that the domestic companies can no longer support. The current crisis has generated considerable debate about the perceived need to restructure our industry in the national interest. As the nation's oldest automotive company, Ford Motor Company is a vital participant in that debate.

Ford is supporting the request for help from the Federal government

- ***To be part of the national debate***
- ***Because of the threat to Ford from a significant event involving one of our competitors***
- ***In the hopes of hastening approval of our ILC application***
- ***Because frozen credit markets might threaten liquidity under certain scenarios.***

Second, we are aware that our domestic competitors are, by their own reporting, at risk of running out of cash in a matter of weeks or months. Because our industry is an interdependent one, with broad overlap in supplier and dealer networks, the collapse of one or both of our domestic competitors would threaten Ford as well. It is in our own self-interest, as well as the nation's, to seek support for the industry at a time of great peril to this important manufacturing sector of our economy.

Third, we hope that demonstrating our Plan to Congress will hasten approval of our application with the FDIC to establish an Industrial Loan Company as part of our finance arm, Ford Motor Credit Company. Having an Industrial Loan Company will place us on a more equal footing with our major competitors who already have such banks. More importantly, it will

benefit consumers by providing us another resource for reasonably priced capital, thus helping us provide credit to our customers and dealers.

Finally, the industry cannot use the current financial markets to finance its cyclical needs, as these markets are presently frozen, and any one of the following items could put severe pressure on our short-term and long-term liquidity:

- A significant industry event, such as a bankruptcy of one of our competitors, causes a disruption to our supply base, dealers and creditors;
- The economic decline is greater than present forecasts and industry volumes decline to per capita levels not seen since the great depression era; or
- There is a global economic collapse, creating additional cash demands.

In addition to making financing available to the automotive industry, there are other important policies that will help enhance the industry's global competitiveness. First, Ford was proud to support stronger CAFE standards, and we are absolutely committed to meeting them. However, we urge Congress to maintain one economy-wide set of national standards on fuel economy. A patchwork of standards would place enormous financial and engineering burdens on manufacturers and have the effect of reducing consumer choice -- all for little or no environmental benefit. Second, in developing a stimulus bill to drive our country's economic recovery, we ask Congress to consider

incentives for consumers to trade in older vehicles and move to more fuel-efficient vehicles. We also ask that continued R&D incentives be considered: the

Ford supports other government policy initiatives to enhance the automotive industry's global competitiveness.

automobile industry spends \$12 billion annually on research and development – more than any other industry. Third, we look forward to working with Congress on comprehensive health care reform that will improve patient care, bring greater transparency, utilize new health information technologies and drive down costs. Fourth, currency is the medium in which trade occurs – it can be as important a determinant of trade flows as the goods themselves. Currency values must be fairly determined – through an open market – not pre-determined by governments to support their domestic

industries. Finally, we support free trade, but it needs to be fair trade. Agreements such as the recent US-Korea trade pact hurt domestic manufacturers because they maintain non-tariff barriers to U.S.-produced goods and prevent a level playing field.

THE FORD MOTOR COMPANY VIABILITY PLAN

Our Transformation to Date

When Ford embarked on our transformational Plan it was with clear recognition that Ford's business model needed to change dramatically, and quickly, if we were going to succeed. Our Board of Directors and Company management knew that "business as usual" would deliver "results as usual" -- a steady decline in performance and a failure to earn returns that would cover our cost of capital much less create positive shareholder value.

Historically, Ford has operated as four largely separate automotive companies around the globe: (i) a North American company; (ii) a South American company; (iii) a European company; and (iv) an Asia Pacific company. Each of these separate companies had its own product development systems, manufacturing processes, suppliers, and other duplicative structures. While this structure may have made sense when the automotive industry was in its infancy and communications, transportation, and other infrastructures made economies around the world more isolated, the separation of our operations has in more recent years led to unnecessary and inefficient duplication, waste and a failure to realize the substantial benefits of scale available to a global enterprise such as Ford.

In recent decades, moreover, Ford expanded into other businesses. At the beginning of this decade, our brand portfolio included Aston Martin, Jaguar, Land Rover, and Volvo, and we also owned adjacent businesses such as Hertz and the Kwik-Fit aftermarket parts business in Europe. As we attempted to manage these and other businesses, our global enterprise became more difficult to manage and we neglected to ensure that the Ford "Blue Oval" brand retained its luster in all segments and its

historical preeminence in all of our markets as a symbol that Ford Motor Company was there to provide reliable and affordable transportation for all.

The situation was especially acute in the United States. Throughout the 1990s and into this decade, we became increasingly dependent in the U.S. market on trucks and large SUVs, which were in heavy demand by consumers and generated large profits. Many of our competitors, both foreign and domestic, likewise followed market demand and added more truck and SUV products to their lineups. Our focus on these vehicles, however, left us exposed in the event of a market shift to smaller, more fuel-efficient vehicles. In anticipation of such a shift, and inspired by the compelling vision outlined by our Executive Chairman, Bill Ford, we began to refocus our portfolio earlier in this decade, introducing a new line of mid-size cars (the Fusion, Milan, and MKZ) as well as the first hybrid sport utility (the Ford Escape -- still the most fuel efficient sport utility available with an EPA city mileage rating of 34 miles per gallon). When fuel prices shot up rapidly earlier this year, the shift occurred much more quickly and was much more pronounced than we or anyone else in the industry anticipated.

In addition, we had, over a period of many years, created a labor structure that was uncompetitive with the foreign-owned transplant operations that had been established in the United States. And, we made small cars in the United States largely because of a requirement to meet federal Corporate Average Fuel Economy standards.

Ford recognizes the factors that caused our current situation, and began to address those factors aggressively based on successful turnarounds in our European and South American businesses.

Fortunately, within the global Ford enterprise we had models of success on which to pattern a North American transformation. Both our European and South American operations had substantially completed transformational plans that had returned those operations to profitability from years of losses. Our European and South American operations had developed attractive new products, matched capacity to demand and implemented progressive agreements with labor. Moreover, these markets, with historically high fuel prices, were primarily small

vehicle markets, so we knew that, as a Company, we could make attractive small vehicles that could deliver profits, particularly in a high fuel price environment.

It was with the knowledge of our success in Europe and South America that we developed a new plan for our Company. Our Plan is summarized as "**One Ford – One Team • One Plan • One Goal.**" **One Ford** has firmly established the principle of one global company, with **One Team**, working together as a lean, global enterprise for automotive leadership, as measured by our customer, employee, dealer, investor, supplier, union, and community satisfaction.

As part of the **One Team** approach, we have implemented and continue to implement a disciplined business plan process to regularly review our business environment, risks and opportunities, our strategy, our Plan, identify areas of our Plan

that need special attention and pursue opportunities to improve our Plan. Everyone is included, openness is encouraged, our leaders are responsible and accountable, facts and data drive our decisions, high-performance teamwork is a performance criteria and we follow this process every week, every month, and every quarter, driving continuous improvement.

Our **One Team** is unified in pursuing the four elements of our **One Plan**:

- Aggressively restructure to operate profitably at the current demand and changing model mix;
- Accelerate development of new products our customers want and value;
- Finance our plan and improve our balance sheet; and
- Work together effectively as one team, leveraging our global assets.

Ford is executing decisive actions to achieve our ONE FORD plan, aligned around ONE GOAL: Profitable growth for all.

Our **One Team** and our **One Plan** are laser-focused on delivering our **One Goal**: An exciting viable Ford Motor Company delivering profitable growth for all.

As business conditions continue to change quickly, we are responding with decisive action:

- We are implementing our strategy to focus on **One Ford** and simplify our brand structure. As a result, we sold Aston Martin, Jaguar and Land Rover and the majority of our ownership of Mazda, and we have announced that we are exploring strategic alternatives for Volvo, including divestiture. We have divested additional other non-core assets. These sales have also helped our overall liquidity.
- We have improved our Ford Blue Oval brand favorability with consumers by re-establishing the brand's historical association with affordable, safe, and sustainable transportation for all, offering the best automotive value.
- We obtained financing for our Plan by going to the more receptive capital markets in December 2006 to raise \$23.5 billion in liquidity, consisting of \$18.5 billion of senior secured debt and credit facilities, secured by substantially all of our domestic assets, and \$5 billion of unsecured convertible debt.
- Faced with a possible financial crisis at our former in-house parts supplier in late 2005, we took back 17 North American plants from Visteon and formed Automotive Components Holdings, LLC (ACH). We have worked with the UAW to restructure each business and either sell or close the facilities. In doing so, we have reduced the costs to Ford, eliminated the risk of disruptions to our business, and treated the affected employees in a responsible way. By year end, we will have returned two plants to Ford, closed four plants and sold five plants. We also have announced the future closure of two more plants, and have four plants left for which we are currently exploring the options to sell or close.
- Together with the United Auto Workers (UAW), we negotiated a transformational labor agreement in 2007, with a lower wage structure for new employees and flexible work rules, and we continue to implement our Voluntary Employee

Beneficiary Association (VEBA) plan to transfer long-term responsibility for retiree health care to the UAW.

- We are cutting operating costs in North America, reducing by \$5 billion cumulatively our annual operating costs (which we measure at constant volume, mix and exchange, excluding special items) by year-end 2008 as compared with 2005, and we continue to implement additional cost reduction actions in North America and around the world.
- We continue to improve our vehicles to achieve leadership in quality and fuel economy and to maintain our leadership in safety and interior comfort and convenience technology – further enhancing the Ford brand.
- We are positioned through our focus on the Ford brand to leverage our global assets and scale to manufacture smaller, fuel-efficient vehicles in North America and the rest of the world, including our global Ford Fiesta and Focus in 2010.
- We have taken painful but necessary downsizing actions to match capacity to real demand, including closing 17 plants over the past five years and downsizing by 12,000 salaried employees and 45,000 hourly employees in North America in the past three years.

Our Ford Credit automotive financial services business, with assets of \$130 billion as of September 30, 2008, provides wholesale financing for about 80% of the Ford, Lincoln and Mercury dealerships in the U.S. It also provides retail and lease financing for four million U.S. consumers.

Ford Credit has taken similarly significant actions, including:

- Refocusing its financing business on our Ford, Lincoln and Mercury brands, and achieving a globally competitive cost structure.
- Exiting several Asia Pacific markets and forming international business partnerships to facilitate the repatriation of capital to support the U.S. business.
- Restructuring its U.S. operations and transitioning from a 160-branch network to six regional business centers.

Implementing our One Ford Plan resulted in a profit for the first quarter of 2008 before the full impact of the credit and economic crises was felt.

Our Plan for North America

I. Aggressively restructure to operate profitably at the current demand and changing model mix

We continue to restructure our North American operations aggressively to be able to operate profitably at the current demand and vehicle mix. This restructuring is taking place across all of our operations, in the areas of manufacturing, supplier relationships, dealer relationships, dealer and consumer credit operations and personnel.

Manufacturing. We have a strong U.S. manufacturing presence, with 10 vehicle assembly plants and 26 powertrain, stamping and components plants across the U.S. We are converting three truck assembly plants to small car production, to support what we believe is a permanent shift to smaller more fuel-efficient vehicles. To this end, approximately 50% of future U.S. capacity will be allocated to small and medium-size vehicles. In addition, nearly all of our U.S. assembly plants will have flexible body shops by 2012 to enable quick response to changing consumer demands and nearly half of our transmission and engine plants will be flexible, capable of manufacturing various combinations of transmission and engine families. We have announced four additional plant closures between 2009 and 2011 and we have announced our intent to close or sell our four remaining ACH plants. We will continue to aggressively match our manufacturing capacity to real demand.

Aligning Manufacturing capacity to meet real demand

Suppliers. We have been working extremely hard to strengthen our U.S. located supply base, which represents 80% of our North American purchases. We have instituted a number of business practices with these suppliers designed to increase collaboration, provide for data transparency and expand the volume of business with select suppliers, while building a more sustainable business model. We have also been able to reduce the total number of production suppliers eligible for major sourcing from Ford from 3,300 in 2004 to approximately 1,600 suppliers today, with a further reduction to 750 suppliers planned. We have paid specific attention to strengthening our minority and women suppliers – which currently account for about \$4 billion of our annual \$35 billion of purchases from U.S. supplier locations. Our consolidation efforts have resulted, and will result, in more business for our major suppliers which will increase their financial strength.

Strengthening our U.S. supply base

Moreover, as we move aggressively to global vehicle platforms, sourcing to common suppliers for the total global volume of a vehicle's components is dramatically increasing, meaning that a smaller number of suppliers will receive a greater volume of the purchases made by Ford to support our global vehicle platform. This again results

in stronger suppliers achieving (and Ford realizing) greater economies of scale as their components are sourced across global platforms for the life of that platform.

Dealers. Our dealers are a source of strength, especially our rural/small town dealers, who represent the face of Ford in communities across the U.S. and provide employment, tax support, community leadership and customer service. At our current

Supporting our dealer network

and expected future market share, we clearly have too many dealers and therefore have made it increasingly difficult to sustain a healthy and profitable dealer network. To address this overcapacity, we are partnering with our dealers and are downsizing and restructuring the Ford, Lincoln and Mercury network in our largest 130 metropolitan market areas to provide targeted average-year sales for Ford dealers at 1,500+ units and Lincoln Mercury dealers at 600+ units, resulting in sustainable profits in both good and bad years. We are doing this while maintaining customer convenience factors such as driving distance, location, and appealing facilities. We have joined with our dealers to fund these consolidation actions jointly to protect our representation in the marketplace.

At year-end 2005, we had 4,396 Ford, Lincoln, Mercury dealers, with 2,242 of those dealers in our largest 130 markets. By year-end 2008, we estimate that we will have 3,790 dealers, with 1,875 dealers in our largest 130 markets, a reduction of 606 dealers overall (14%), 367 of which were in our largest markets (a reduction of 16%). We will continue to work collaboratively with our dealers to reduce our dealer network to match our sales, market share and dealer sales objectives.

Credit Operations. We also continue to support our dealers through our wholly-owned subsidiary, Ford Motor Credit Company – especially important during this time of tight consumer and commercial access to credit. Ford Credit provides wholesale, retail and lease financing programs, together with capital and facility loan programs.

Focusing Ford Motor Credit Company to support U.S. dealers and consumers

Ford Credit is further consolidating its operations and improving its cost structure to reflect lower financing volumes resulting from the sale of the Jaguar and Land Rover brands, our reduced ownership in Mazda and lower automotive industry sales volumes. These actions include forming new strategic alliances and partnerships and reducing capital needs in international markets, and continuing to restructure its operations globally.

Salaried Personnel. In the area of salaried personnel, we are engaging in aggressive restructuring to fit our business to the current demand and to set the stage for growth. We will have reduced salaried personnel costs by 40% over the past three years, including a 10% reduction effective February 2009. In addition, since 2005, we have reduced the number of corporate vice presidents in North America by 35%.

Reducing salaried personnel costs

To further reduce costs, we recently made several significant changes to our Compensation and Benefit plans, including: (i) eliminating merit increases and bonuses due to be paid in 2009; (ii) suspending the Company's 401(k) matching contribution, and Company-paid tuition assistance and dependent scholarships; (iii) capping retiree life insurance at \$25,000; and (iv) improving the cost-effectiveness of benefit programs through more efficient plan offerings and increased employee cost sharing. (See Appendix, Slide 1.)

Hourly Personnel. With respect to the hourly work force in the United States, we and the UAW agreed to a transformational labor agreement in 2007, the benefits of which are only beginning to be realized. Under this agreement, our hourly labor cost disadvantage compared to the transplants will be substantially reduced, although not completely eliminated. These labor costs savings should begin to materialize as we have the opportunity to bring workers into the workforce at the new wage levels. (See Appendix, Slide 2.)

Working with the UAW to transform our hourly personnel cost structure

The 2007 UAW/Ford Negotiations resulted in significant progress being made in reducing the Company's total labor cost. Given the present economic crisis and its impact upon the automotive industry, however, Ford is presently engaged in discussions with the UAW with the objective to further reduce our cost structure and eliminate the remaining labor cost gap that exists between Ford and the transplants.

As the Committees are aware, Ford is a significant provider of health care coverage in the United States, providing expansive health care benefits to nearly 500,000 current and retired employees, including their dependents. In our 2007 agreement with the UAW, we agreed to help ensure the coverage for current and future UAW retirees by paying \$13.2 billion in the form of cash and notes into a Voluntary Employee Beneficiary Association trust ("VEBA") to settle the Company's obligation, effective at year-end 2009. We intend to fully meet the terms of our agreement with the UAW to transfer the assets and the notes by December 31, 2009.

In the area of health care for salaried employees, our obligation at year-end 2007 was \$2 billion. We have implemented cost caps on these benefits beginning in 2007, which will limit our exposure to future cost increases. In addition, we continue to drive efficiencies for all participants through wellness education programs and competitive benefit sourcing.

As a result of the above actions, we will realize a total of \$5.5 billion in annualized operating cost reductions from 2005 through 2008. We continue to pursue additional cost reductions at all levels for 2009 and future years, and we expect an additional \$1 billion in operating cost reductions in 2009.

II. Accelerate development of new products our customers want and value

No element of our One Ford Plan is more important than accelerating the development of new vehicles our customers want and value.

Success in the automotive business is based on product. No element of our Plan is more important than accelerating the development of new vehicles our customers want and value. We will achieve this through:

- A balanced and complete portfolio of small, medium and large vehicles in the car, utility and truck segments facilitated by using Ford's world class vehicles available in all of our regions;
- Product excellence through leadership in fuel economy, innovation, quality, safety, and leading edge "comfort and convenience" technology;
- Substantial and continuous improvement in engineering and investment efficiency facilitated by leveraging the global assets of "One Ford" and a reduction in the number of vehicle platforms, engines, transmissions, and customer offered complexity; and
- Significant improvement in the profitability of small cars.

Balanced Portfolio. We are leveraging our global product strengths to deliver six new world-class small and medium sized vehicles to the United States over the next four years. This will enable our car and crossover product segment mix to increase from 48% to 60% and result in volume and share growth. (See Appendix, Slide 3.) We are targeting sales leadership in "people movers" and crossovers through addition of new vehicles (such as the Ford Flex) and redefining existing vehicles (such as the Ford

Ford is recognizing and adapting to the shift to smaller vehicles while maintaining leadership in our areas of traditional strength.

Explorer). We will have significantly reduced truck, van, & sport utility vehicle (SUV) product mix from 52% to 40% in only three years. In order to realize a balanced portfolio, we are increasing our investment allocation in cars and crossovers from 59% to 82% of our total investment.

Although we believe that the shift to smaller, more fuel-efficient vehicles is permanent, trucks, vans and SUVs will continue to be an important part of the North American market. We intend to maintain our leadership position in these segments by focusing our investment on new fuel-efficient vehicles, such as the new Ford Transit, and all new powertrains with advanced technology.

Product Excellence and Innovation. Ford Motor Company understands the importance of fuel economy to both our customers and the Nation and we are committed to deliver the best or among the best fuel economy with every new vehicle.

Ford is delivering dramatic improvements in fuel economy, and investing \$14 billion in the U.S. on advanced technologies.

In fact, half of our Ford, Lincoln and Mercury light duty nameplates qualify by 2010 as "Advanced Technology Vehicles" under the Energy Independence and Security Act— increasing to 75 percent in 2011 and more than 90 percent in 2014. As part of our commitment to be America's fuel-economy leader, we will:

- Improve Ford's U.S. light-duty vehicle fleet fuel economy from the 2005 model year baseline every year. From Ford's largest light duty trucks to our smallest cars, we will improve the fuel economy of our fleet by 14% in 2009, 26% in 2012, and 36% in 2015. We fully intend to meet or exceed the fuel efficiency requirements set forth in the Energy Independence and Security Act of 2007.
- Deploy affordable fuel economy technologies in high volume for all customers, including :
 - EcoBoost Engines (turbo-charging plus direct injection combined with downsizing – with up to a 20% improvement in fuel economy) – following introduction in 2009, application of this technology will increase to more than 85% of Ford/Lincoln/Mercury nameplates by 2012 and 95% by 2015
 - Electric Power Assisted Steering – will be available on 90% of Ford/Lincoln/Mercury nameplates by 2012 and 100% by 2014. Electric steering improves fuel economy by 3%, and is just one example of the attention-to-detail necessary to deliver fuel economy leadership
 - 6-Speed Transmissions – currently offered in more volume than any other manufacturer. 6-speed transmissions will be in 100% of Ford/Lincoln/Mercury nameplates by 2012
- Support bio-fuels such as ethanol as an important long term solution to our energy needs, especially as second generation fuels become available. Ford has committed to doubling the production of flexible fuel vehicles by 2010 and to producing 50% of our products capable of running on E85 by 2012. In addition, we are operating demonstration fleets of hybrid and plug-in hybrid vehicles capable of running on E85.
- Continue to develop and deploy hybrids while reducing cost for expanded market applications. Ford was the first U.S. company to introduce a hybrid with the introduction of the Ford Escape Hybrid in 2004 and the Escape and Mariner Hybrids remain the fuel-economy leaders among all sport utilities. Full HEV nameplate offerings and volume will double in 2009 with introduction of Ford Fusion and Mercury Milan Hybrids, which best the Toyota Camry hybrid by at least six mpg.

- Achieve annual fuel savings of 2.5 billion gallons by 2012 model year and 3.1 billion gallons by 2015 model year from new fuel efficient vehicles including:
 - 2009 Ford Escape with better highway fuel economy than Toyota RAV4 and Honda CRV.
 - 2009 Ford F-150 with class-leading fuel economy better than Toyota Tundra and Nissan Titan.
 - 2010 Ford Fusion HEV with better fuel economy than Toyota Camry HEV by at least 6 mpg.
 - 2010 Ford Fusion with better highway fuel economy than Toyota Camry and Honda Accord.
 - 2011 Ford Explorer with better highway fuel economy than Toyota Highlander HEV.
 - 2011 Ford Fiesta with better highway fuel economy than Toyota Yaris and Nissan Versa.
- Achieve cumulative gasoline fuel savings from Ford's advanced technology vehicles of 16 billion gallons from 2005-2015.

Our Plan calls for an investment of roughly \$14 billion in the U.S. on advance technologies to improve fuel efficiency by over 25%. We have submitted these projects to DOE under Section 136 of the Energy Independence and Security Act, and expect to receive \$5 billion in direct loans by 2011 to invest in these technologies.

In addition to fuel economy leadership, we intend to achieve leadership in quality and maintain leadership in public domain safety testing and interior comfort and convenience technology, and we are well on our way.

Ford is leading in quality, safety, and technology.

The 2008 model year marked Ford's fourth consecutive year of improved vehicle quality:

- Customer concerns at both high and low times in service dropped by 50% in the last four years; contributing more than \$1 billion in warranty savings to date. Plans are in place to achieve another 30% improvement by 2011.
- Ford led the domestic manufacturers in the 2008 Consumer Reports Reliability Survey, with the most reliable gas family cars being the Ford Fusion and Mercury Milan.
- Ford and Mercury are among top four non-luxury brands with Toyota and Honda at 3 Years in Service in the 2008 RDA Global Quality Research Survey (GQRS), a respected third party assessment of industry quality.
- Ford, Lincoln and Mercury tied the best Japanese brands in the 2008 RDA GQRS survey at 3 months in service.
- Ford and Mercury are among the top four non-luxury brands with Toyota and Honda in JD Power & Associates Initial Quality Study (IQS).
- We have increased *Consumer Reports* "Recommended Buys" from 11 in 2005 to 16 in 2008, and we have plans in place for all Ford vehicles to achieve Recommended Buys by 2011.

Ford continues as a leader in safety performance. We recently achieved the highest number of "Top Safety Picks" from the U.S. Insurance Institute for Highway Safety (IIHS), we were awarded the most U.S. government 5-star safety ratings in the automotive industry, and we have introduced product innovations that improve safety including: (i) Forward Collision Warning with Brake Support; (ii) Blind Spot Information System with Cross Traffic Alert; (iii) Roll Stability Control; (iv) MyKey® configurable driving mode to encourage safer driving behaviors; and (v) Integrated Spotter Mirror. We also continue to lead on technologies that enhance comfort and convenience, including SYNC for hands-free media and phone, Easy Fuel capless fuel filler and our coming innovation in next generation display and information systems.

Sustainability and Electrification Strategy. Ford's sustainability plan will achieve continuous and substantial improvement in fuel economy and a corresponding reduction in CO₂ through affordable technology in high volume. Ford's plan is to make affordable fuel efficiency available to millions of consumers.

Ford's three-phased approach to sustainability provides immediate and significant improvements on a wide scale and accelerated electrification, including next generation hybrids and all-electric vehicles.

Our three-phased approach – with near-term, medium-term and long-term advanced technologies and products – begins now with advanced internal combustion engine and transmission technologies, such as our EcoBoost engines going into production on several vehicles in 2009. The next major step in Ford's plan is to increase over time the volume of electrified vehicles, as battery costs improve and as the transition from Hybrids to Plug-in

Hybrids to Battery Electric Vehicles occurs. (See Appendix, Slide 4.)

Next month at the North American International Auto Show in Detroit, we will discuss in detail Ford's accelerated vehicle electrification plan, which includes bringing to market by 2012 a family of hybrids, plug-in hybrids and battery electric vehicles. Our work will include partnering with battery and powertrain systems suppliers to deliver a full battery electric vehicle (BEV) in a van-type vehicle for commercial fleet use in 2010 and a BEV sedan in 2011. We will develop these vehicles in a manner that enables us to reduce costs and ultimately makes battery electric powered vehicles more affordable for consumers.

Our plan also includes building on our competence in hybrid vehicles, as demonstrated by the industry-leading fuel economy of the Ford Escape and Ford Fusion hybrids. We are now developing our next generation full hybrid technology, which includes plug-in capability, for vehicles in 2012 and beyond. We are targeting a substantial increase in hybrid volume through a greater than 30% reduction in cost, installation of hybrid capability in global platforms and hybrid vehicles that are uniquely styled.

We cannot, however, accomplish significant electrification by ourselves. The 2007 Energy Independence and Security Act requires *American-developed*

Ford supports a public/private partnership to develop next generation battery technology

breakthroughs in high-power energy batteries (e.g. lithium ion). In order to make significant progress in electrification, Ford supports establishing a U.S. public/private partnership to accelerate the development of this capability, including supporting infrastructure, within the United States.

Engineering and Investment Efficiency. As part of our Plan, we are providing more new or significantly changed vehicles for our customers with less investment. Between 2005 and 2008, we improved our engineering costs and facilities and tooling costs for a new vehicle by 60% and 40%, respectively. Continuation of these rates of improvement is included in our business plan. Major enablers to these improvements include:

- A new Product Development process learned from our partner, Mazda, that reduces the time to develop a new vehicle by 8 to 14 months
- Continuing focus on simplification, for example, the reduction of vehicle platforms (the underpinnings of a vehicle) from 25 in 2005 to 9 by 2012, equal to the best competitor.

Small Car Profitability. As part of our Plan, we will reverse the decades-long trend of losing money on the production of small cars in the United States. In order to

Ford is taking action to make production of small cars profitable in the U.S.

accomplish this improvement in profitability, and secure our ability to continue to produce all types of vehicles in the U.S., we are taking the following actions:

- Increase global platform volume of Focus sized vehicles to over 2 million units per year;
- Increase volume of Ford Focus cars to over 1 million units per year;
- Improve margins by:
 - improving revenues by making vehicles that are exciting in design, both exterior and interior, with class-leading fuel economy, safety performance, craftsmanship, and technology. The improvements across all Ford vehicles are improving customer perception of the Ford brand;
 - improving costs to competitive levels through reduced complexity and global purchasing scale; and
- Improve fixed costs through increased manufacturing and supply base capacity utilization and sharing of engineering and tooling costs globally.

III. Finance our plan and improve our balance sheet

The third pillar of our Plan is to finance the Plan and improve our balance sheet. As noted, we worked to obtain financing for our Plan by going to the markets in December 2006 to raise \$23.5 billion in liquidity, consisting of \$18.5 billion of senior secured debt and credit facilities, secured by substantially all of our domestic assets, and \$5 billion of convertible debt.

In addition, in 2006, we eliminated common stock dividends and in 2007 and 2008 we issued more than \$3 billion in new equity (debt exchanges and direct issuances), sold Aston Martin, Jaguar, Land Rover and the majority of our investment in Mazda.

At Ford Credit, and in light of the frozen capital markets, we have recently become more reliant on committed securitization capacity from banks and have embarked upon aggressive plans to develop new funding products. We are eligible for and are participating in funding programs from the European Central Bank and, more recently, the Federal Reserve's Commercial Paper Funding Facility (CPFF). We have provided feedback to the Federal Reserve and Treasury on their newest program (Term Asset Backed Securities Loan Facility) in hopes that changes can be implemented that, in our view, will result in better financing support for our U.S. customers and dealers. We also filed an Industrial Loan Company application with the FDIC earlier this year and we are hopeful that a favorable response will soon be forthcoming so we can diversify our funding capability and eliminate the competitive disadvantage created by certain competitors operating Industrial Loan Companies.

Looking forward to 2009 and beyond, we intend to explore strategic alternatives for our Volvo business, including divestiture. We also intend to raise further equity capital when markets re-open and our business begins to improve, and we would explore balance sheet restructuring over time.

IV. Work together effectively as one team

As part of the **One Team** approach, we have implemented a disciplined business plan process to regularly review our business environment, risks and opportunities, our strategy, our Plan, and identify areas of our Plan that need special attention and pursue opportunities to improve our Plan. Everyone is included and contributes, openness is encouraged, our leaders are responsible and accountable, we use facts and data to make our decisions, high performance teamwork is a performance criteria and we follow this process every week, every month, and every quarter, driving continuous improvement. We believe this process gives us a clear picture of our business in real time and the ability to respond quickly to new issues and changing conditions – as we have done in the face of rapid changes in the market and business environment in 2008.

In addition, we are partnering with and enlisting all of our stakeholders to help us execute our Plan to deal with our business realities and create an exciting viable Ford business going forward. We are reaching out and listening to customers, dealers, employees, the UAW, suppliers, investors, communities, retirees, and federal, state and local governments. Each of these constituencies is a critical part of, and critical to, the success of our business going forward. Realizing our goal of profitable growth for all is as important to these stakeholders as it is to our shareholders.

Implementing the elements of our Plan in North America will deliver a viable and profitable business, poised for profitable growth for all. Under our Plan we expect our profitability (operating profit before taxes – excluding special items) to be at or above breakeven for both Corporate and North American Automotive in 2011 and our Corporate operating cash flow to be at or above breakeven in 2011.

SUMMARY

Ford Motor Company has a comprehensive transformational Plan that will ensure our future viability – as evidenced by our profitability in the first quarter of 2008. Ford's overseas operations are profitable, and we have put in place the same product-led transformation plan and business model to ensure our viability in the U.S. Ford has enough liquidity in the near-term and a plan to be profitable in the long-term based on our present assumptions, which we believe are firmly grounded in reality. We are poised for profitable growth for all of our stakeholders – our employees, suppliers, dealers, shareholders and the communities across America that benefit from our presence and our success.

Responses to specific questions in the letter from Speaker of the House Pelosi and Majority Leader Reid are on the pages that follow.

RESPONSE TO SPECIFIC QUESTIONS

We have presented the key elements of Ford Motor Company's Plan to achieve profitability, and will answer the specific questions in the letter from Speaker Pelosi and Majority Leader Reid. We believe that these responses should be the beginning of a partnership between the Federal Government and the industry as part of the provision of the proposed bridge loans to the industry.

We hope that the 111th Congress and the incoming Obama Administration will establish a process to address in a comprehensive way the conditions that inhibit competitiveness of the domestic industry and that the process will include all of the stakeholders – manufacturers, creditors, dealers, the United Auto Workers, and suppliers, to enhance the long term strength of the industry.

Provide a forthright, documented assessment of the auto companies' current operating cash position, short-term liquidity needs to continue operations as a going-concern, and how they will meet the financing needs associated with the plan to ensure the companies' long-term viability as they retool for the future.

As of September 30, Ford had about \$30 billion of liquidity (\$19 billion of cash and \$11 billion of available automotive credit lines).

We also are implementing a series of operating and financing actions that are expected to improve Automotive cash by a total of \$14 billion to \$17 billion through 2010. These actions include:

- Reducing our 2009-2010 annual capital spending to between \$5.0 and \$5.5 billion;
- Achieving further salaried personnel-related cost reductions through personnel reductions and revisions to compensation;
- Reducing engineering and manufacturing costs through improved efficiencies and alignment with volume assumptions;
- Reducing other structural costs through greater efficiencies in advertising, information technology, and other areas
- Reducing inventories globally and achieving other working capital improvements;
- Releasing capital consistent with Ford Credit's smaller balance sheet and focus on core Ford brands;
- Developing incremental sources of funding, including sale of non-core assets; and
- Implementing equity for debt swaps.

Because of these actions and our access to our revolving credit lines, even if industry levels were somewhat worse than October 2008 levels through the end

of 2009, Ford would have adequate short-term liquidity. Drawing the credit lines, however, would put significant financial pressure on an already stressed banking sector. The revolver loan would be required to be paid back or refinanced, if markets permit, by year-end 2011.

Ford, therefore, is not facing a short-term liquidity issue but this could change if there is a significant industry event that causes a disruption to our supply base and creditors

The continuing decline in the economic environment also has caused longer-term issues for our plan, which we address in the next section.

Provide varying estimates of the terms of the loan requested with varying assumptions including that of automobile sales at current rates, at slightly improved rates, and at worse rates.

We have set forth below our estimates of U.S. new vehicle sales at slightly improved rates, at current rates, and at worst rates. Our request for government funding in the form of a "stand-by" line of credit, in the amount of up to \$9 billion, is based on our analysis of automobile sales at current rates.

Automotive Industry Sales at "Slightly Improved Rates"

These are the assumptions on which our Plan is based and which are supported by modeling recoveries from past deep recessions.

| | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|--|-------------|-------------|-------------|
| U.S. Total Vehicle Sales (mils.)* | 12.5 | 14.5 | 15.5 |
| *includes medium and heavy duty trucks | | | |

This forecast is based on an economic cycle similar to the early 1980's with a peak-to-trough real GDP decline of 2 to 2.5%. Overall, our GDP assumptions are generally consistent with the ranges released by the Federal Reserve on November 18, 2008. This vehicle sales forecast includes four years of consecutive declines in vehicle ownership (per driving age person), the longest reversal of this trend. Total sales remain 10-15% below trend in 2010. We believe that the enactment of a successful stimulus package has the potential to generate demand in excess of this forecast.

Based on this forecast, we have sufficient resources through the business plan period to fund our substantial investment in product and fuel economy improvement plans and maintain our VEBA funding plans. The recent declines in the stock market, however, have reduced our U.S. pension funding levels. Based on the average rate of return that we expect to realize longer term as opposed to returns that have historically been realized coming out of a recession, this would require additional contributions of \$3-\$4 billion starting in 2010. In addition, the continuing uncertainty in the credit markets jeopardizes our funding plans for our credit company; requiring up to \$4 billion of incremental capital to replace debt that we presently can not raise. Further, given the increasing uncertainty of the economic environment, we believe it would be prudent to plan for an additional \$2-\$3 billion for balance sheet restructuring or for further industry declines (equal to a decline in industry volumes by about 2-3 million units over the 2009-2011 planning period -- the sensitivity of our cash to changes in industry volume is about \$1 billion per 1 million change in unit volume).

Based on the substantial fuel economy investments included in our plan, we expect to receive up to \$5 billion of DoE funds through 2011 based on the full amount requested as part of our November 11, 2008 submission. Assuming this

level of DoE funding, availability of incremental funds of up to \$4-\$6 billion through 2011 would be required to provide protection against the above issues.

If our Plan were to materialize, we believe we would only need a government credit line of \$6 billion, again only to be accessed if and to the extent needed.

Automotive Industry Sales at "Current Rates"

| | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|----------------------------------|-------------|-------------|-------------|
| U.S. Total Vehicle Sales (mils.) | 11.0 | 12.5 | 14.0 |

This forecast is based on an economic cycle worse than the early 1980's and a recession that persists through all of 2009. The peak-to-trough real GDP decline would be about 3%. In this scenario, the median age of cars would rise to well above 10 years (up from only 8 years earlier this decade) as consumers stop replacing vehicles. The cumulative reduction of 5 million industry units from our Plan levels would increase our funding needs to up to \$9 billion.

Automotive Industry Sales at "Worse Rates"

| | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|----------------------------------|-------------|-------------|-------------|
| U.S. Total Vehicle Sales (mils.) | 10.5 | 11.0 | 12.0 |

This forecast is based on prolonged economic slump that persists into 2010. In this case, significant monetary and fiscal policy easing does not provide any stimulus to consumer and business spending. The downturn would be the worst on record in the post depression period. The cumulative reduction of 9 million industry units would increase our funding needs to up to \$13 billion.

The incremental funding under these scenarios would cover working capital requirements and additional restructuring actions (including personnel layoffs and plant closings).

Provide for specific measures designed to ensure transparency and accountability, including regular reporting to, and information-sharing with, any federal government oversight mechanisms established to safeguard taxpayer investments.

Ford hopes it will not need to utilize these loans, but if we do we would provide significant information regarding our business to any Oversight Board that Congress might establish.

Ford regularly provides financial and other information in publicly-filed reports to SEC, NHTSA, EPA, and PBGC. In addition to our publicly-filed reports, we would submit periodically to any Oversight Board information on:

- our progress, and projected future progress, in meeting the performance goals and milestones of our plan;
- our progress in improving our capacity to pursue the timely and aggressive production of energy-efficient advanced technology vehicles and in meeting federal fuel efficiency requirements;
- our executive compensation plans (to demonstrate compliance with the provisions of the legislation);
- our progress in preserving and promoting U.S. auto jobs, [consistent with our plan for financial viability];
- funding of retirement and health care benefits for our retirees and their dependents; and
- our efforts to strengthen our balance sheet over time to reduce our debt and repay any government loans

In order to allow these reports to be as inclusive as possible, we strongly recommend that Congress afford the opportunity where appropriate for information submitted to the Oversight Board to be protected from public disclosure as confidential business information.

Protect taxpayers by granting the most senior status for any government loans provided, ensuring that taxpayers get paid back first.

We recognize the importance of the federal government protecting the taxpayers' interests in connection with any loans made to the automakers. Senior status of government loans could, however, exacerbate our challenges and the problems in the financial system by causing certain existing debt to be in default. Ford has \$17.5 billion of senior secured debt, including \$10.2 billion of available credit facilities, secured by substantially all of our domestic assets. It is this liquidity that we believe may permit us to make it through this difficult period without needing to avail ourselves of government financial assistance. Ford also has outstanding \$17.1 billion of publicly-issued unsecured debt securities that by their terms rank as *senior* unsecured debt.

A condition of senior status for any government loan could cause lenders or holders of our debt to allege a debt default, which could result in an acceleration of indebtedness and lead to the very result the legislation was designed to prevent, namely, a liquidity crises.

Any legislation, therefore, should be structured to provide that any government loans would be given priority over "unsecured obligations and indebtedness of the borrower, except to the extent that creating such priority would cause those obligations or indebtedness to be in default." We would be pleased to discuss this matter further with the Committees should that prove helpful to a better understanding of the difficulties presented by the proposal to grant taxpayers the "most senior status."

Assure that taxpayers benefit as corporate conditions improve and shareholder value increases through the provision of warrants or other mechanisms.

Ford supports the need for taxpayer protections. Should business conditions worsen and we need to use the loans, Ford will work with the Federal Government to implement reasonable provisions of warrants or other forms of support.

We respectfully recommend that a reasonable coverage ratio for warrants would be 15%, the level applied to TARP participants, with the strike price and numbers of shares of common stock determined by reference to the market price of Ford stock at the time of drawing on the bridge loan. Existing Ford shareholders, of course, would be diluted.

In order to protect valuable tax losses, it is important that the equity interests provided to the Federal Government not contribute to an ownership change under Internal Revenue Code section 382. The necessary provisions would be similar to the section 382 protections provided to banks by IRS Notice 2008-100 with respect to the equity interests provided to the Federal Government under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008, P.L. 110-343.

Bar the payment of dividends and excessive executive compensation, including bonuses and golden parachutes by companies receiving taxpayer assistance.

Ford is taking aggressive actions to limit dividends and executive compensation during this difficult period. Ford eliminated dividends to shareholders in 2006. In the event Ford receives help under this legislation being contemplated by Congress, we would not resume paying dividends until after such assistance has been repaid.

Ford recognizes that transforming our industry will require the shared sacrifice of many stakeholders and we will be asking our employees, dealers, and others to make changes to help save their jobs and our company. To underscore our commitment, Ford's senior executives will not receive any salary increases or bonuses in 2009, and we will extend that restriction if business conditions continue to warrant it. We believe that the executive compensation limits imposed under TARP (to which we may be availing ourselves even without bridge loans if the TALF program is implemented so that our credit operations can participate and benefit from this program) are equally appropriate for the automobile industry.

In order to innovate and develop the smaller and more fuel efficient cars of the future, we also need to attract and retain highly skilled employees. As it considers legislation, we hope that Congress will provide us with adequate flexibility to attract and keep the quality employees essential to our transformation and not impose overly broad restrictions that will inhibit our competitiveness.

Include proposals to address the payment of healthcare and pension obligations.

As stated in our submission, Ford is a significant provider of health care coverage in the United States, providing expansive health care coverage current and retired employees and their dependents –covering over 500,000 people in total. In our agreement with the UAW, we agreed to help ensure the coverage for current and future UAW retirees by paying \$13.2 billion in the form of cash and notes into a Voluntary Employee Beneficiary Association trust ("VEBA") to fully settle the Company's obligation, effective at year-end 2009. We intend to fully meet the terms of our agreement with the UAW to transfer the assets and the notes by December 31, 2009.

In the area of salaried health care, our obligation at year-end 2007 was \$2 billion. We have implemented cost caps on salaried benefits beginning in 2007, which will limit our exposure to future cost increases. In addition, we continue to drive efficiencies for all participants through wellness education programs and competitive benefit sourcing. The funding of our salaried health care obligations is included as part of our Plan.

The Company provides substantial retirement benefits to both hourly and salaried U.S. retirees – 207,000 UAW retirees and 128,000 salaried retirees. At the end of 2007, our hourly and salaried pension plans were funded at levels of 104% and 111%, respectively, with combined assets of \$45.8 billion. Stock market declines, however, have resulted in a significant, unexpected reduction in the funded status of U.S. pension plans, so that without an improvement in market conditions, required contributions to our major U.S. pension plans are expected beginning in 2010 – with a total of about \$3-4 billion in contributions starting in 2010.

Should pension investment returns not recover, or continue to deteriorate, government loans could be used to ensure the overall strong funding status of our pension plans.

Demonstrate the auto companies' ability to achieve the fuel efficiency requirements set forth in the Energy Independence and Security Act of 2007, and become a long-term global leader in the production of energy-efficient advanced technology vehicles.

Ford Motor Company understands the importance of fuel economy to both our customers and the Nation and we are committed to deliver the best or among the best fuel economy with every new vehicle. In fact, half of our Ford, Lincoln and Mercury light duty nameplates qualify as "Advanced Technology Vehicles" under the Energy Independence and Security Act by 2010 – increasing to 75 percent in 2011 and more than 90 percent in 2014. As part of our commitment to be America's fuel-economy leader, we will:

- Improve Ford's U.S. light-duty vehicle fleet fuel economy from the 2005 model year baseline every year. From Ford's largest light duty trucks to our smallest cars, we will improve the fuel economy of our fleet by 14% in 2009, 26% in 2012, and 36% in 2015. We fully intend to meet or exceed the fuel efficiency requirements set forth in the Energy Independence and Security Act of 2007.
- Deploy affordable fuel economy technologies in high volume for all customers, including :
 - EcoBoost Engines (turbo-charging plus direct injection combined with downsizing – with up to a 20% improvement in fuel economy) – following introduction in 2009, application of this technology will increase to more than 85% of Ford/Lincoln/Mercury nameplates by 2012 and 95% by 2015
 - Electric Power Assisted Steering – will be available on 90% of Ford/Lincoln/Mercury nameplates by 2012 and 100% by 2014. Electric steering improves fuel economy by 3%, and is just one example of the attention-to-detail necessary to deliver fuel economy leadership
 - 6-Speed Transmissions – currently offered in more volume than any other manufacturer. 6-speed transmissions will be in 100% of Ford/Lincoln/Mercury nameplates by 2012
- Support bio-fuels such as ethanol as an important long term solution to our energy needs, especially as second generation fuels become available. Ford has committed to doubling the production of flexible fuel vehicles by 2010 and to producing 50% of our products capable of running on E85 by 2012. In addition, we have produced demonstration fleets of hybrid and plug-in hybrid vehicles capable of running on E85.
- Continue to develop and deploy Hybrids while reducing cost for expanded market applications. Ford was the first U.S. company to introduce a hybrid with the introduction of the Ford Escape Hybrid in 2004 and the Escape and Mariner Hybrids remain the fuel-economy leaders among all sport utilities. Full HEV nameplate offerings and volume will double in 2009 with introduction of Fusion and Milan Hybrids, which best the Toyota Camry hybrid by at least six mpg.
- Achieve annual fuel savings of 2.5 billion gallons by 2012 model year and 3.1 billion gallons by 2015 model year from new fuel efficient vehicles including:

- 2009 Ford Escape with better highway fuel economy than Toyota RAV4 and Honda CRV.
- 2009 Ford F150 with class leading fuel economy better than Toyota Tundra and Nissan Titan.
- 2010 Ford Fusion HEV with better fuel economy than Toyota Camry HEV by at least 6 mpg.
- 2010 Ford Fusion with better highway fuel economy than Toyota Camry and Honda Accord.
- 2011 Ford Explorer with better highway fuel economy than Toyota Highlander HEV.
- 2011 Ford Fiesta with better highway fuel economy than Toyota Yaris and Nissan Versa.
- Achieve cumulative gasoline fuel savings from Ford's advanced technology vehicles of 16 billion gallons from 2005-2015.

Our plan calls for an investment of roughly \$14 billion in the U.S. on advance technologies to improve fuel efficiency by over 25%. We have submitted these projects to DoE under Section 136 of the Energy Independence and Security Act, and expect to receive \$5 billion in direct loans by 2011 to invest in these technologies.

Require that government loans be immediately callable if long-term plan benchmarks are not met.

Should business conditions worsen, and we needed to avail ourselves of government financing, we would accept a callable structure if sufficient flexibility was provided to address unforeseen events that might lead to deviation from any loan requirements.

APPENDIX



SALARIED PERSONNEL ACTIONS

- Salaried Personnel Levels – restructure business to fit current demand
 - Reduced salaried personnel by 36% over the past three years – includes 10% reduction effective February 2009
 - Reduced contract personnel by 50%
- Compensation & Benefit Changes
 - Eliminated 2009 merit increases and bonuses
 - Suspended 401k match, tuition assistance and dependent scholarships
 - Capped retiree life insurance at \$25k
 - Improved cost effectiveness of benefit programs through more efficient plan offerings and increased employee cost sharing

Concurrently, we continue efforts to ensure a skilled and engaged team by:

- Conducting leadership development programs
- Developing future leaders through various developmental functional programs
- Providing flexible work arrangements for maximum workforce efficiency and effectiveness
- Conducting transparent communications with employees
- Conducting events focused on future products to build employees' confidence in the future of the company

**HOURLY LABOR COST DISADVANTAGE VS. TRANSPLANTS
SUBSTANTIALLY REDUCED WITH LATEST UAW AGREEMENT**



| | Ford | | |
|--------------|------------------------|---------------------|--------------|
| | Without UAW VEBA | With UAW VEBA | Transplants |
| Wages | \$ 29 | \$ 29 | \$ 26 |
| Wage-Related | 14 | 14 | 9 |
| Subtotal | <u>\$ 43</u> | <u>\$ 43</u> | <u>\$ 35</u> |
| Legacy Cost | 16 | 3 | 3 |
| All Other | 12 | 12 | 11 |
| Total | <u>\$ 71</u> | <u>\$ 58</u> | <u>\$ 49</u> |

**Memo:
Average Wage Assuming 20%
Entry-Level Employees**

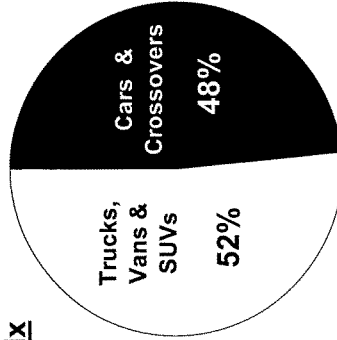
\$ 53



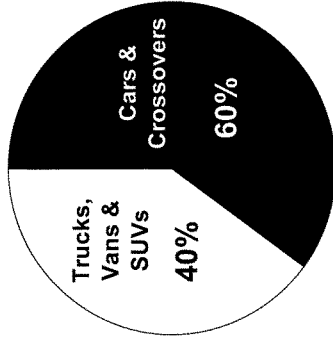
BALANCED PORTFOLIO OF PRODUCTS

2007

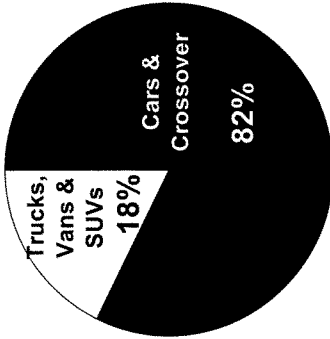
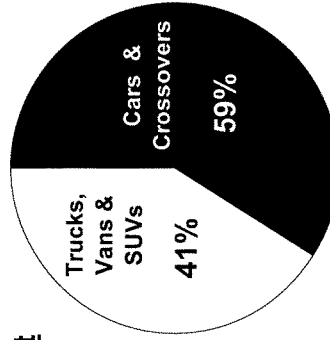
Product Mix



2010

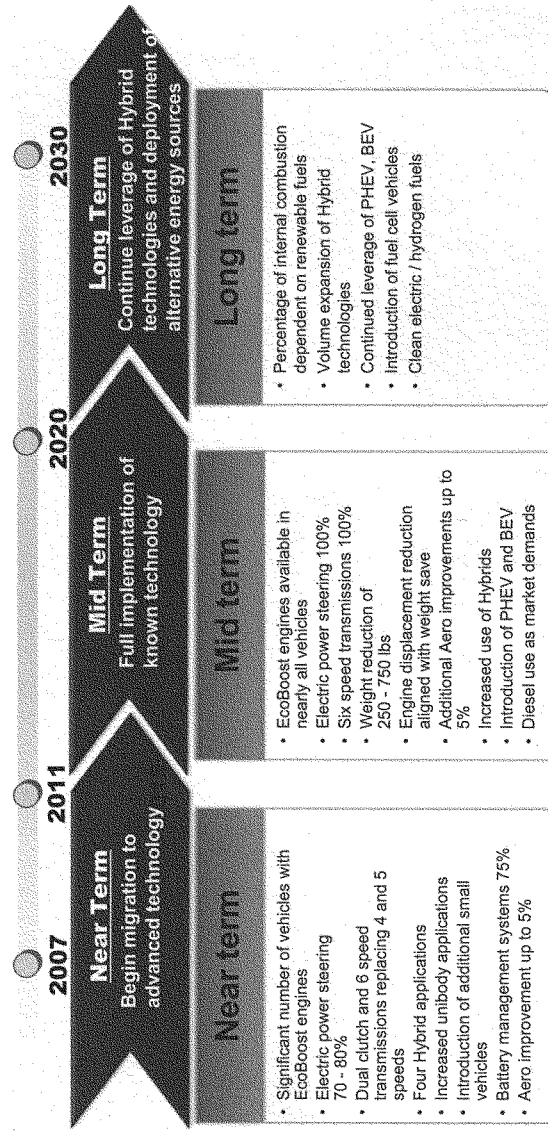


Investment





SUSTAINABILITY PLAN



**United States House of Representatives
Committee on Financial Services**

Committee Hearing

**Stabilizing the Financial Condition of the
American Automobile Industry**

December 5, 2008

Robert Nardelli

Chairman & CEO

Chrysler LLC

(Oral Submission)

Following is the text of prepared oral testimony by Bob Nardelli, Chairman and CEO of Chrysler LLC.

I appreciate the opportunity to represent the one million people who depend on Chrysler for their livelihoods. Before I answer your questions regarding our loan request, let me state clearly why we're here: Chrysler requests a \$7 billion loan to bridge the current financial crisis.

In exchange, Chrysler is committed to: continue our restructuring, including negotiating cost-saving concessions from all constituents; investing in fuel-efficient cars and trucks that people want to buy and beginning repayment of our government loan in 2012. I also want to reinforce the need for Chrysler Financial to receive immediate assistance from TARP – as its continued vitality is a critical assumption to our plan.

Chrysler requires this loan to get back to our transformation that began just over one year ago. As a newly independent company in 2007, Chrysler was on track for financial profitability. Since August of 2007, we have eliminated more than 1.2 million units, or 30 percent of our capacity. We reduced our fixed costs by \$2.4 billion and separated more than 32,000 workers, including 5,000 on the Wednesday before Thanksgiving. And at the same time, we invested more than half a billion dollars in product improvements in our first 60 days, improved our J.D. Power quality scores and reduced our warranty claims by 29 percent. As a result, through the first half of 2008, Chrysler met or exceeded its operating plan and ended the first half of the year with \$9.4 billion in unrestricted cash.

We are here because of the financial crisis that started in 2007 and accelerated at the end of the second quarter of 2008. As consumer confidence fell and credit markets remained frozen, the lowest U.S. auto sales in more than 20 years put tremendous pressure on our cash position. U.S. industry sales fell from 17 million a year in 2007, to a monthly annualized rate of 10.5 million last month – a 6.5 million unit decline.

What does that mean for Chrysler? At 10 percent market share, it translates to a loss of 650,000 vehicles, or roughly \$16 billion in lost revenue opportunity. With such a huge hit to our sales and revenue base, Chrysler requires the loan to continue the restructuring and fund our product renaissance.

Chrysler has a sound plan for financial viability that includes shared sacrifice from all constituents. We have identified approximately \$4 billion of potential cost savings and improvements that have been included in our plan. We are committed to negotiate with all constituents to achieve our savings targets. Our plan also includes producing high-quality, fuel-efficient cars and trucks that people want to buy, while supporting our country's energy security and environmental sustainability goals.

For the 2009 model year, 73 percent of our products will offer improved fuel economy compared with 2008 models. We plan on launching additional small, fuel-efficient vehicles. ENVI is our breakthrough family of all-electric and range-extended electric vehicles – similar to the one parked outside.

Chrysler's long-range product plan is robust, realistic and green. The plan features 24 major launches from 2009 through 2012. It includes a hybrid Ram truck and our first electric-drive vehicle in 2010 with three additional models by 2013.

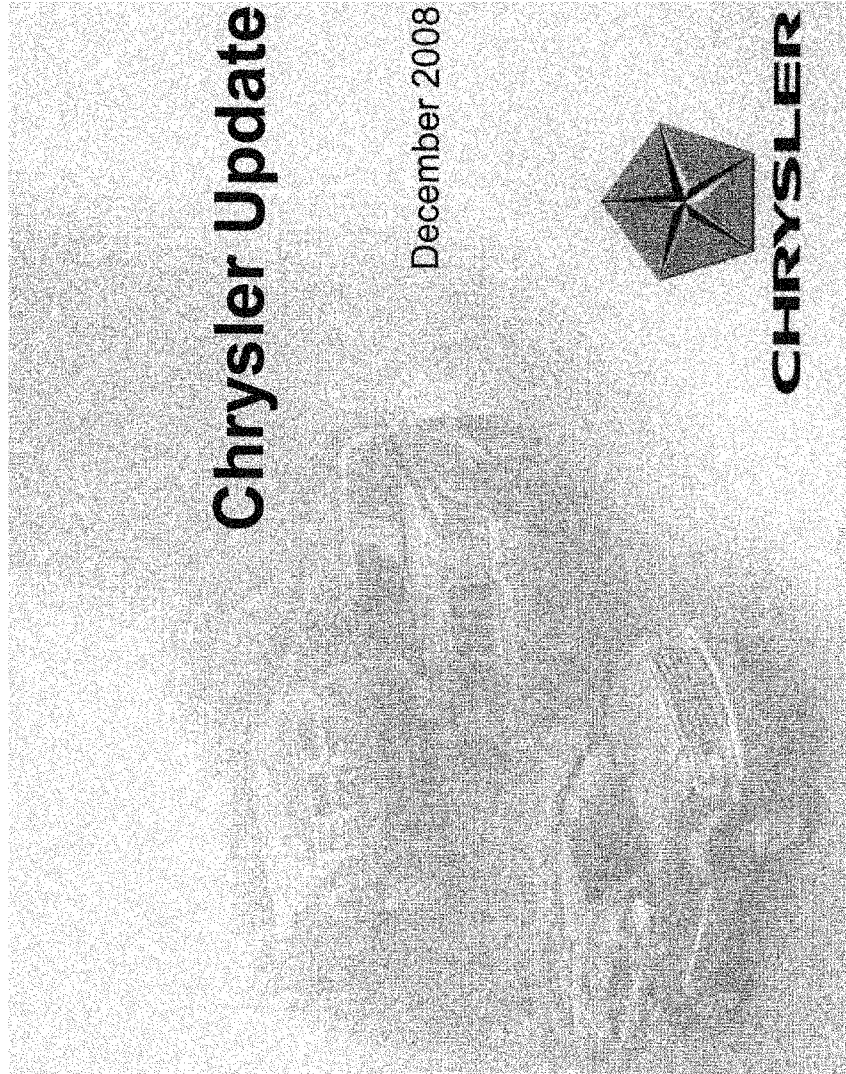
A key feature of Chrysler's future is our capability as an electric vehicle company. Through our GEM neighborhood electric vehicle division, Chrysler is the largest producer of electric-drive vehicles in the U.S. today. Combined with the new products from our ENVI group, we expect that 500,000 Chrysler electric-drive vehicles will be on the road by 2013.

Chrysler will continue to aggressively pursue new business models that include alliances, partnerships and consolidations. This model is currently successful in helping Chrysler increase the efficient utilization of our manufacturing capacity. For example, in North America today, Chrysler manufactures all Volkswagen minivans, and beginning in 2011, we will produce all Nissan full-size trucks.

With government collaboration, our industry can accelerate how America drives cutting-edge technology. An Automotive Energy Security Alliance would: coordinate public and private spending already devoted to advanced vehicle technologies; produce basic technology available to all manufacturers; work with national labs and major research universities and draw private investment to meet our national energy and environmental goals. Such an alliance would help ensure that as a country, we do not trade our current dependence on foreign oil for a future dependence on foreign technologies.

I recognize that this is a significant amount of public money. However, we believe this is the least costly alternative considering the depth of the economic crisis and the options we face.

Thank you.



The New Chrysler Business Transformation Since Becoming Independent (August 2007)



CHRYSLER

Restructure

- Capacity reduction >1.2 million units
 - 12 production shifts
- Headcount reduction
 - 24,500 Hourly
 - 8,800 Salaried
- Fixed costs reduced \$2.4 billion
- \$1 billion in non-earning assets identified for sale

Transform

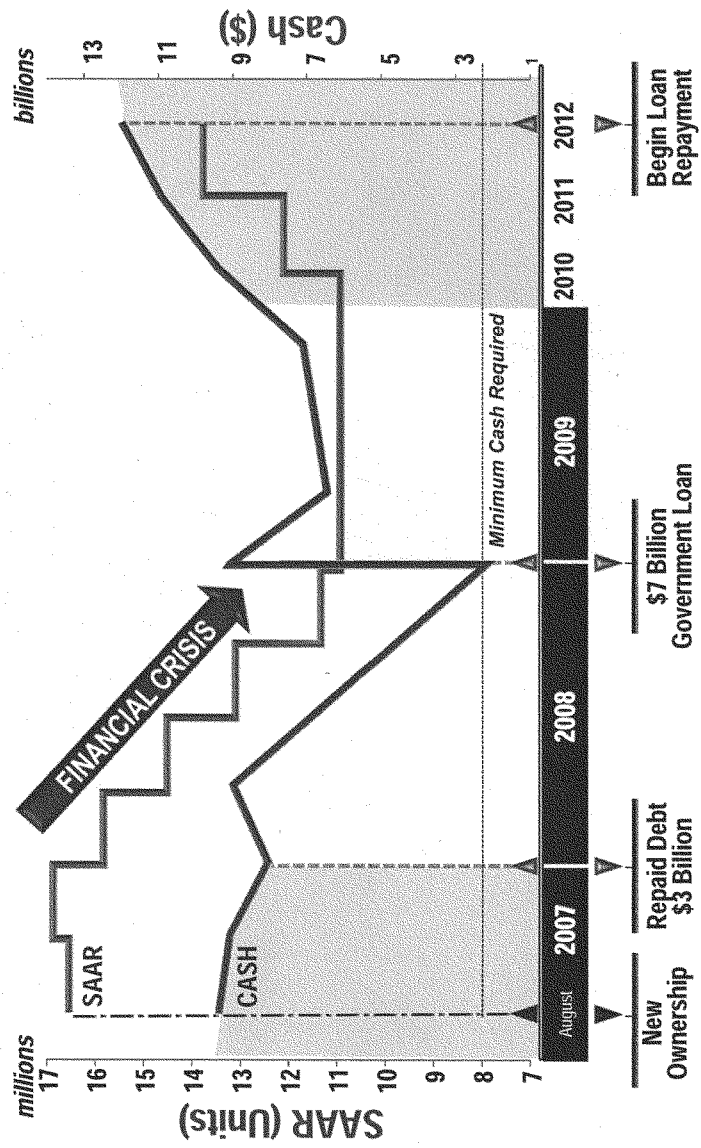
- 400+ product enhancements
- Warranty claims reduced by 29%
- Industry-first internet customer advisory panel
- VW partnership for U.S. minivan manufacturing
- Nissan partnership for small car and full size truck

*Provide fuel-efficient, reliable, quality vehicles people will want to buy,
enjoy driving, and will want to buy again*

Why Chrysler Needs Assistance



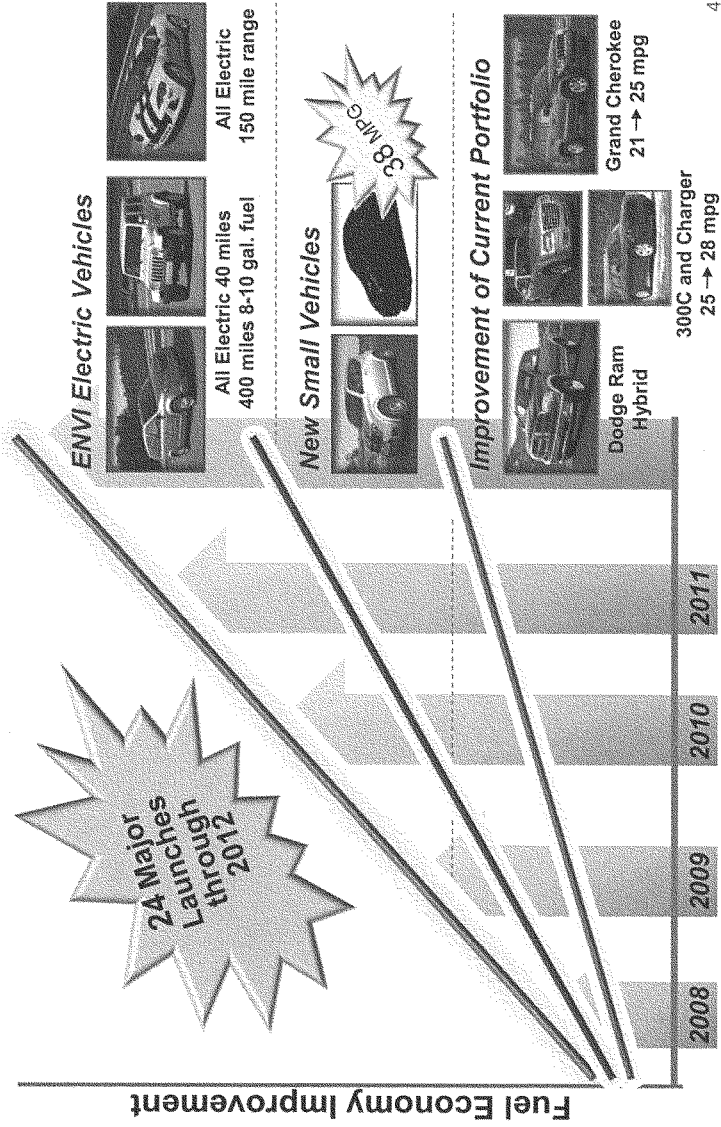
CHRYSLER



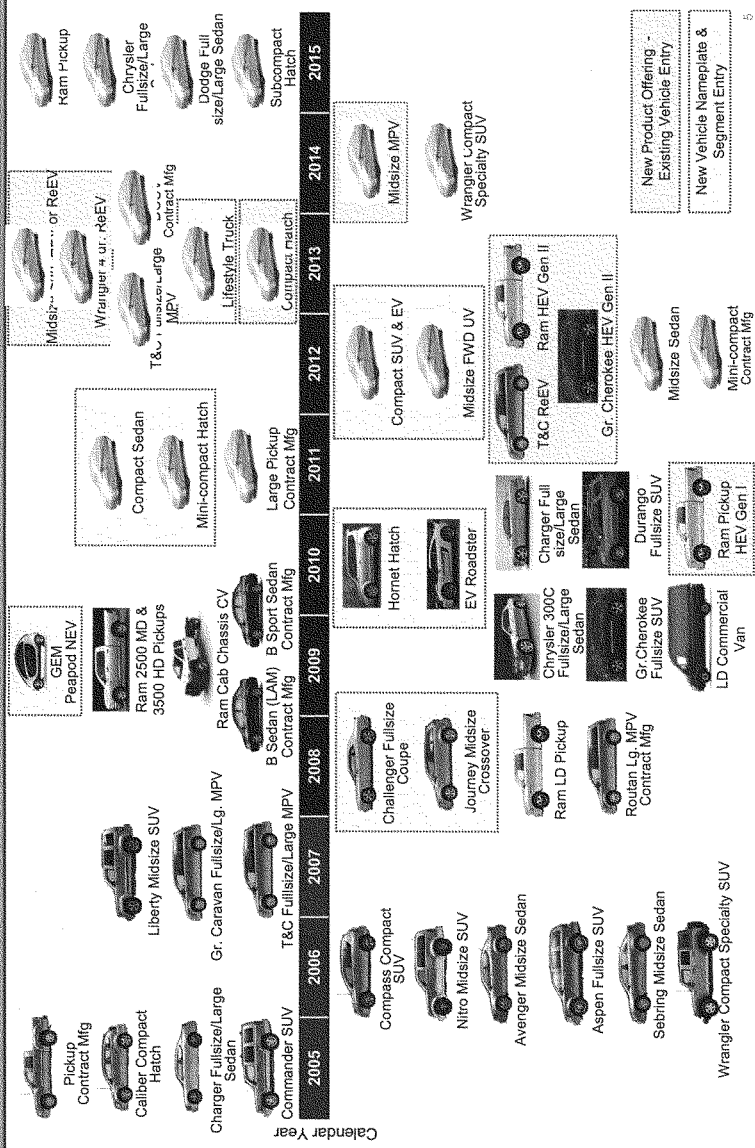
Provide Fuel-Efficient, Reliable, Quality Vehicles People
Will Want to Buy, Enjoy Driving, and Want to Buy Again



CHRYSLER



Chrysler Product Launch Cadence



Alliance, Partnership and Consolidation Important for Auto Industry and for Chrysler



CHRYSLER

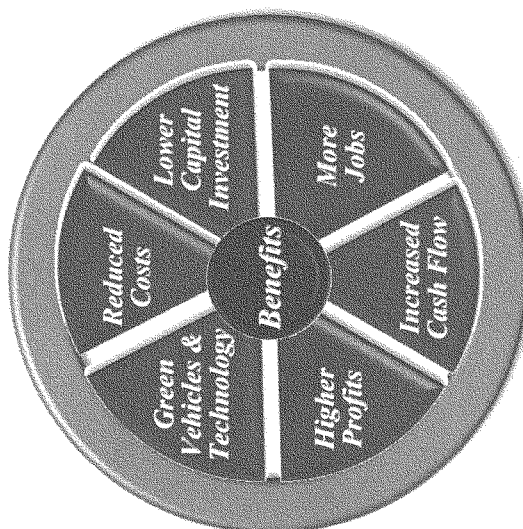
Significant Upside Opportunities Exist:

Advanced Technology Sharing

- Accelerate access and implementation of green technology
- Form an independent joint venture to maximize government funding

Improved U.S. Competitiveness

- Expand global/U.S. market access for Chrysler



Combined Sourcing

- Increase economies of scale and reduce cost
- Estimated three companies spend \$170B in NAFTA
- Annual Savings: 2% = \$3.4B
3% = \$7.7B

Product and Platform Sharing

- Accelerate small cars and fuel economy gains while reducing capital investment risk
- Sharing most fuel-efficient platforms
- Customize design for each brand

Capacity Rationalization

- Improve utilization of U.S. plants (from current 70% to >90%) and reduce capital expenditure

Chrysler is the Quintessential American Auto Company



CHRYSLER

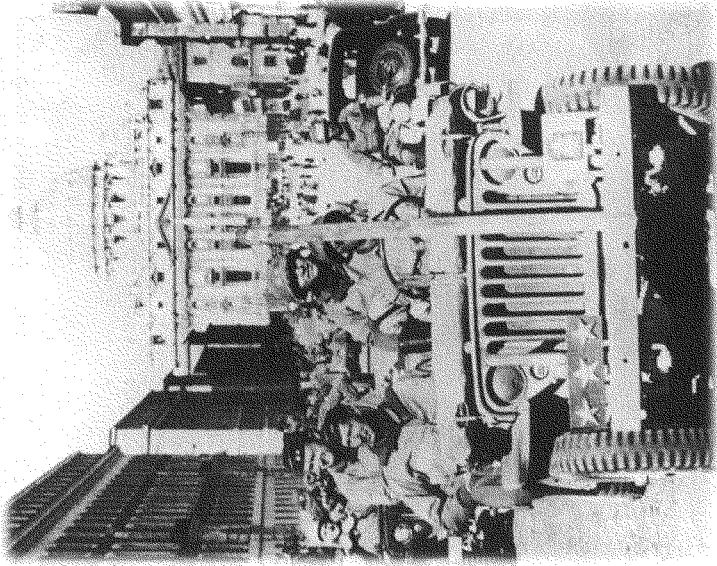
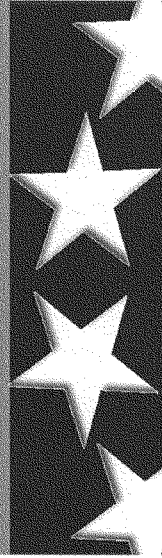
73% of our total **sales**
are within the U.S.

61% of our vehicle **production**
is in the U.S.

74% of our total **employees**
are U.S.-based

78% of our **purchased material**
is from U.S.-based suppliers

62% of all our **dealers**
are based in the U.S.



**Testimony of Felix G. Rohatyn to the House Financial Services Committee
December 5, 2008**

Mr. Chairman and members of the Committee:

I am pleased to accept your invitation to review the present situation of the auto industry with you. General Motors, Ford and Chrysler are all in serious jeopardy. The situation is fraught with danger and each of your options carries its own risks. The situation is in some ways similar to the near bankruptcy of New York City in 1975, as well as that of Chrysler in 1980.

After years of operating losses as well as a heavy burden of accumulated legacy costs, GM together with Ford and Chrysler – like New York City thirty years ago – are facing bankruptcy unless the US government is willing to provide them with multi-billion dollar loans. The loans would not guarantee the success of a restructuring but the companies have each submitted a different plan which is intended to bring them to profitability. Absent the loans, however, the companies are likely to fail in time, with serious consequences to our fragile economy.

Government loans, of this type are emergency instruments but have been used in some critical cases with success. Sustained profitability has to be the objective. In May, 1975, New York City was also headed for bankruptcy. Years of operating deficits, failure to make capital investments, high taxes and high costs were driving businesses and residents out of the city. The banks, which normally financed the city, refused to renew their loans absent major reform and Governor Carey and Mayor Beame requested an emergency loan of \$1 billion

Felix G. Rohatyn

"Review of Industry Plans to Stabilize the Financial Condition of the American Automobile Industry."

from Washington to tide the city over its next loan maturity. When President Ford refused the request, the city was faced with grim alternatives: either declare bankruptcy or submit New York City to a combination of steep tax increases and brutal budget cuts, which would leave the city in a desperate economic position and with social problems of unknown dimensions. Governor Carey, Mayor Beame and their advisors therefore decided to elaborate our own plan. Time was running out, however. The city needed \$1 billion within three weeks, followed by \$1 billion per month for the following six months.

We turned to our only potential sources of funds, i.e., the New York City banks and the pension funds of the municipal unions. To provide greater security for bondholders we created a new state agency, the Municipal Assistance Corporation, which had the backing of the state. We were able to raise \$1 billion by selling bonds to the public but we still were left with \$8 billion to go and still the markets would not reopen to us without government participation. We struggled, for six months, to raise the money from union pension funds, reductions in the work force (60,000 people), loans from the state and restructuring from the banks. But President Ford and his advisors continued to refuse any assistance, seemingly blind to the risks to the markets of such a bankruptcy and eager to make an example of the so-called profligacy of the city.

By the end of November 1975, we had concluded that we could not meet the conditions of President Ford without a crippled city as a result, and New York City was about to file for bankruptcy when we found new allies: the first Western Economic Summit was taking place near Paris, presided by President Giscard

d'Estaing of France and Chancellor Helmut Schmidt of Germany. President Ford attended, with other Western leaders and the Chair of the Federal Reserve Bank, Arthur Burns, was a member of our delegation. The French President and German Chancellor warned Dr. Burns of the heavy risks being taken by the Ford Administration's position on New York City. The foreign exchange and the securities markets reacted very negatively and so did the municipal bond markets, making it more and more difficult for even a small municipality to finance.

Giscard d'Estaing and Schmidt warned Ford of a possible global crisis for the dollar and *"the appearance of a bankruptcy by the United States."* At that point, President Ford and his advisors stepped back from the brink. Upon his return to Washington, Ford agreed to a three-year Federal seasonal loan program which saved our city, but at a heavy price. Deep service cuts, reductions in personnel in the tens of thousands, cancellation of capital programs, as well as the imposition on the city of a state financial control board, the Municipal Assistance Corporation. However, within four years the New York City budget was balanced and the city, with the exception of 9/11, enjoyed thirty years of prosperity. However, it would have been impossible without government participation, which unlocked the participation of the private financial actors (the banks, the insurance companies and the pension funds). In addition, the city elected a new Mayor, Ed Koch, who successfully led the city's restructuring, together with Governor Hugh Carey.

The automotive industry is now in a similar position to New York City in 1975. It has submitted a multi-year operating plan with the management committed to profitability at the end of the period. It would be overseen by a financial control board similar to New York City's. It should produce vehicles consistent with the evolution of fuel and environmental standards. Further savings could be produced through asset sales, downsizing, debt-to-equity swaps and, in the case of Chrysler, savings from synergies in the case of a Chrysler merger, which had been discussed some time ago. The issue in the auto industry is partly about the severe recession as well as about costs that exceed revenues and unexciting product design. Any assistance package has to recognize the need to realign costs with revenues and to deal with realistic assumptions.

There was precedent for these actions: in particular, New York City in 1975 and Chrysler in 1980 both received federal assistance after difficult congressional debate.

In 1979, Chrysler teetered on the edge of bankruptcy and the company struggled to get support for a \$1.5 billion loan guarantee which ultimately helped to save the company and 250,000 jobs. The company was able to secure the loan guarantee because labor, management and other stakeholders made significant concessions. The company also benefited from the salesmanship of its new chairman, Lee Iacocca, and the support of Detroit mayor Coleman Young, as well as state and local governments connected to plants and with tighter government oversight. The company also had to provide a financial and

operating plan as well as short and long term cash flow projections. The strategy included sacrifices from everybody with an interest in saving the company. Congress approved the loan guarantee program after a strong debate and Chrysler survived.

The auto industry can only be saved if it takes the lead in environmental and fuel efficiency standards which would benefit the whole country; . It cannot wait much longer and a bankruptcy of one of the lead companies would carry the same risks that caused the President of France and the Chancellor of West Germany to issue their warnings thirty years ago. It is an open-ended risk, which would impact all the stakeholders, and ultimately all of our economy. It is worth remembering an old saying: never take a risk you are not prepared to lose.

I have learned several lessons from this kind of situation:

- 1) Be realistic in your assumptions and leave yourself some margin
- 2) Act early and do not wait for all the data to be in
- 3) Be truthful with all the stakeholders

These have served me well and I believe them to be appropriate in this case.

General Motors Corporation



Restructuring Plan for Long-Term Viability

**Submitted to Senate Banking Committee &
House of Representatives Financial Services
Committee**

December 2, 2008

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General Motors Corporation
Restructuring Plan for Long-Term Viability

1. Introduction

In response to the urgent request of General Motors Corporation for U.S. Government assistance to sustain operations, Speaker of the House of Representatives Nancy Pelosi and Senate Majority Leader Harry Reid in a letter dated November 21, 2008, have asked that General Motors (GM) submit to the U.S. Congress a “credible restructuring plan that results in a viable industry, with quality jobs, and economic opportunity for the 21st century”. The requested restructuring plan (hereafter the “Plan”) is respectfully set out below.

The Plan details why GM needs temporary Government funding, how that funding will be used, how we intend to repay the taxpayers, and why such funding is beneficial to the U.S. economy. While we have attempted to be fully responsive to the issues raised in the November 21 letter, we are prepared to elaborate on any item, where such elaboration would assist the Congress in its consideration of this urgent matter.

At its core, this Plan is a blueprint for creating a new General Motors, one that is lean, profitable, self-sustaining and *fully* competitive. General Motors well understands the challenges to energy security and the climate from worldwide long-term growth in petroleum consumption. GM believes that as a business necessity we must look to advanced vehicle technologies to reduce petroleum dependency and greenhouse gas emissions, and has structured this Plan accordingly.

The company commits to use the proposed Government funding to exclusively sustain and restructure its operations in the United States and aggressively retool its product mix. Key elements of this Plan include:

- a dramatic shift in the company’s U.S. portfolio, with 22 of 24 new vehicle launches in 2009-2012 being more fuel-efficient cars and crossovers;
- full compliance with the 2007 Energy Independence and Security Act, and extensive investment in a wide array of advanced propulsion technologies;
- reduction in brands, nameplates and retail outlets, to focus available resources and growth strategies on the company’s profitable operations;
- full labor cost competitiveness with foreign manufacturers in the U.S. by no later than 2012;
- further manufacturing and structural cost reductions through increased productivity and employment reductions; and
- balance sheet restructuring and supplementing liquidity via temporary Federal assistance.

The net effect of the operational and financial restructuring elements contained in the Plan will be a company that is profitable (at an EBIT basis) in a U.S. industry with annual sales between 12.5-13 million units. Given the very significant operating leverage in the automobile business, this means a restructured GM would realize healthy profits in a more typical 16 million unit year and be able to self-fund its operations long-term.

While GM acknowledges that it has made mistakes in the past, the company has been pursuing a major transformation of its business model for the past several years, and accelerating its plans to produce more fuel-efficient vehicles. This transformation has consumed a substantial amount of resources and accounts for a major portion of GM's current financial leverage. At this juncture, the company would not require Government assistance were it not for the dramatic collapse of the U.S. economy, which has devastated the company's current revenues and liquidity.

With the assistance requested to pursue the Plan outlined herein, and with the significant sacrifices from GM stakeholders that are proposed, the company can succeed, and will repay the American taxpayers in full. Specifically, we propose:

- up to a \$4 billion immediate loan from the Federal Government, to ensure minimum liquidity levels through December 31, 2008;
- a second draw in January, 2009, of up to \$4 billion to ensure adequate liquidity balances through January 31, 2009; and a third draw of up to \$2 billion in the February-March time frame based on recent market developments, for a total draw of \$10 billion by the end of the first quarter;
- a total *term loan* facility of up to \$12 billion, including the three draws, to ensure minimum liquidity levels through December 31, 2009, under a Baseline U.S. industry annual sales volume of 12 million units;
- a \$6 billion committed *line of credit* from the Federal Government to ensure adequate liquidity under more severe U.S. industry conditions (a 10.5 million unit "Downside" industry sales scenario for 2009) or a more challenging near-term dealer order situation;
- a total of \$18 billion in term loan and revolving credit facilities, which is larger than the amount discussed during the Congressional hearings of November 18-19, 2008, that includes provision for the "Downside" industry sales scenario, the subject of considerable inquiry during the hearings;
- the creation of a Federal Oversight Board to monitor and authorize draws, including timing, amounts and performance metrics consistent with the Plan outlined below. The Oversight Board will support and facilitate an expedited, Administration-led, successful restructuring, ensuring that taxpayer investments are fully protected; and
- providing the taxpayer benefits as the company's condition improves, and shareholder value increases through the provision of warrants.

The Oversight Board will provide Congress transparency around the temporary loan facilities, to ensure that such loans are being spent for the intended purposes as outlined in this Plan, and to confirm that the restructuring benchmarks required for draws are met. If more extensive restructuring is required, GM will work with the Oversight Board to determine the additional necessary actions.

The term "liquidity", as used by GM, is the amount of cash readily accessible to meet the company's immediate or very near-term obligations. This includes cash on hand,

available revolver capacity, and very short-term investments, like money market funds, certificates of deposit, and short-term highly-rated commercial paper.

General Motors is requesting the loan facilities outlined above (term loan and committed credit facility) because recent significant declines in dealer orders are now adversely affecting first-quarter production schedules and revenue forecasts. This drop in dealer orders reflects both continued, abnormally low auto industry sales, due to the general economic decline, and mounting consumer fears about a GM bankruptcy. According to very recent market research (conducted by CNW Marketing Research), more than 30% of consumers who considered a GM vehicle and purchased a competitive product instead cited the possibility of GM bankruptcy as the top reason for *not* buying a GM product. This is more than double the percentage of the next highest reason.

To highlight this point, both the Baseline and Downside Scenarios outlined in this submission assume that consumers will consider GM products and services on their merits, and without regard to concerns relating to the company's viability. If this assumption is not true, and concerns regarding the company's viability continue to weigh on purchase decisions (as they clearly did in November 2008), the company expects that first-quarter 2009 cash outflows would be materially *worse* than even the Downside Scenario. As such, clarity and prompt action adds real value to the company and to consumers.

The requested Federal assistance will materially help resolve this uncertainty, stabilize the company, and enable GM to execute its restructuring Plan. Such assistance also helps the company achieve a viable and sustainable capital structure by early 2009. Importantly, as part of this restructuring, GM will preserve the status of existing trade creditors, and honor terms and provisions of all outstanding warranty obligations to both consumers and dealers, in the U.S. and globally.

Some have suggested that bankruptcy is a reasonable option. The plain fact is bankruptcy of an auto company is markedly different and much riskier than that of a steel company or an airline, with the potential for: lengthy delays, given the number of stakeholders; significant administrative costs; the very real risk of the lack of funding while in bankruptcy; and the stigma attached to our products in the eyes of consumers. On this latter point, it cannot be emphasized strongly enough how much a bankruptcy will depress sales of an auto manufacturer's products due to consumer fears of long-term warranty, resale value and service-related issues. The company, as noted above, is already experiencing the effects of such speculation today.

2. Background

General Motors Corporation, a U.S.-based company, has been in business for 100 years, has produced nearly 450 million vehicles globally, and operates in virtually every country in the world. While GM has recently enjoyed rapidly growing sales and revenues outside the United States, the U.S. remains the company's largest single market.

GM is woven into the very fabric of America. It has been the backbone of U.S. manufacturing, is a significant investor in research and development, and has a long history of philanthropic support of communities across the country. The auto industry today remains a driving engine of the U.S. economy, employing 1 in 10 American workers, and is one of the largest purchasers of U.S. steel, aluminum, iron, copper, plastics, rubber, and electronic and computer chips. Indeed, GM's "Keep America Rolling" sales campaign, following the September 11 attacks, is credited by many as having prevented an extended recession in 2001.

It is no secret that GM, like all domestic automobile manufacturers, has increasingly struggled over the last several years due to increased competition from foreign manufacturers with lower wage, healthcare and benefit costs (in part, due to having far fewer retirees to support in the U.S., and national healthcare structures in their home countries). GM has spent \$103 billion over the last 15 years alone on these legacy costs, constraining investment in more advanced manufacturing and product technologies and significantly weakening the company's balance sheet.

GM has made mistakes in the past — in now-untenable provisions from prior collective bargaining agreements, and insufficient investment in smaller, more fuel-efficient vehicles for the U.S. Even so, GM still supplies one in five vehicles sold in the U.S. today. In fact, 66 million GM cars and trucks are on this country's roads today, 44 million more than Toyota.

As described in Appendix A, GM has made substantial progress in narrowing the gap with foreign competition in quality, productivity and fuel efficiency. The Plan commits to further improvements in these and other areas critical to our long-term success. It is also noteworthy that in other markets, such as China, Latin America and Russia, and where GM does not have the burden of legacy costs, the company has recently grown rapidly and outperformed the competition.

Finally, GM has never failed to meet a Congressional mandate in the important areas of fuel efficiency and vehicle emissions, and sets the industry standard for "green" manufacturing methods. Furthermore, the company's role in creating "green" technology and high-paying jobs of the future will increase substantially as a result of implementing the Plan.

3. The Problem

General Motors is now coping with the worst economic downturn, and worst credit market conditions, since the Great Depression. Significant failures have occurred in America's financial services sector — including two of America's five largest investment banks, the nation's largest insurance company, both Freddie Mac and Fannie Mae, and two of the ten largest banks — with financial institutions receiving total Government bailouts valued today at well over \$2 trillion. Consumers have had to contend with illiquid credit markets, rising unemployment, declining incomes and home values, and volatile fuel prices.

As a direct result, over the past few months, U.S. auto sales – across all manufacturers, foreign and domestic – have declined by more than 30% and are at their lowest per capita levels in half a century. This rapid decline is without parallel.

GM's financing arm, GMAC, cannot effectively access the secondary markets today. With each passing day, it is less able to finance the sale of GM vehicles, either for dealers or for the public. One year ago, GMAC was able to provide either installment or lease financing for nearly half of GM retail sales. That number has fallen to 6% today. In addition, GMAC is no longer able to buy contracts for customers with a credit score under 700, which excludes roughly half the buying population. All of this has been especially toxic to GM sales in the past two months, with sales running about 40% behind year-ago levels.

Last year, the company's restructuring plan, including a new collective bargaining agreement, coupled with the then-current economic and market outlook, indicated adequate liquidity to sustain operations (please refer to Appendix B). However, the collapse of the industry and GM sales, caused by the current economic crisis, now makes it increasingly unlikely GM will be able to service its debt in a timely fashion, requiring development of the new Plan presented herein.

The company's balance sheet, reflecting in substantial part the \$103 billion in cash/assets used to fund U.S. post-retirement healthcare and pension funds in the last 15 years, includes a (\$60) billion negative net worth position at September 30, 2008. Liquidity, at \$16 billion, was above the \$11-\$14 billion minimum range required for GM's global operations, but continued cash burn and closed capital/credit markets threaten the company's ability to fund the Plan.

Therefore, GM must reluctantly, but necessarily, turn to the U.S. Government for assistance. Absent such assistance, the company will default in the near term, very likely precipitating a total collapse of the domestic industry and its extensive supply chain, with a ripple effect that will have severe, long-term consequences to the U.S. economy. To avoid such a disastrous outcome, we propose both loans from the Federal Government and the empowerment of a new Federally-created Oversight Board to help facilitate all the necessary changes for a successful restructuring of the company.

4. Consequences of Failure

Everyone at General Motors, including its Management and Board of Directors, is well aware of the consequences of failure to implement the Plan. These consequences go beyond those of the failures of smaller corporations. The cost of failure in this instance would be enormous for everyone, given the broad impact of GM and the domestic auto industry on the present and future U.S. economy. Regionally, a failure at GM would devastate Michigan and other Midwest states that are already reeling with high unemployment and low economic activity.

A failure by GM will likely trigger catastrophic damage to the U.S. economy, precipitating failures among component and logistic suppliers, other domestic car

manufacturers, raw material suppliers, technology and service providers, retailers and their suppliers, and GM creditors and financial institutions. According to a study by the Center for Automotive Research, an estimated 3 million Americans could find themselves jobless within a year of GM's collapse, and the longer-term consequences of losing such a leading manufacturer and investor in research and development would have long-lasting adverse effects on America's global competitiveness.

Finally, the importance of a U.S.-owned and -operated auto industry must not be underestimated, nor should its role in maintaining a fully competitive U.S. industrial base, free of domination by foreign manufacturers. The advanced propulsion investments GM is making in support of greatly improved fuel efficiency, emissions reductions, and energy independence will create whole new "green" industries that will drive the U.S. economy in the 21st century.

5. Temporary Federal Loan

General Motors seeks an immediate temporary Federal loan in the amount of up to \$4 billion in the month of December 2008. Based on a forecast of continued low industry unit sales for the next several months, as indicated in Table 1 below, the company's liquidity position is expected to fall below minimum levels needed to sustain operations (these projections, and more detailed supporting schedules, are contained in Appendix C).

Table 1 - Temporary Federal Loan - Baseline Scenario

| | BASELINE SCENARIO | | | |
|-----------------------------------|-------------------|-----------|-----------|----------|
| | Dec '08 | Jan '09 | Feb '09 | Mar '09 |
| U.S. Industry (Annual Sales Rate) | 12.5 M | 11.2 M | 11.3 M | 11.5 M |
| GM Operating Cash Flow* | \$1.1 B | (\$4.2 B) | (\$2.0 B) | \$1.2 B |
| GM Liquidity Level | \$10.1 B | \$5.8 B | \$3.6 B | \$4.1 B |
| Federal Loan (Total Draw) | \$4.0 B | \$8.0 B | \$10.0 B | \$10.0 B |
| GM Liquidity with Federal Loan | \$14.1 B | \$13.8 B | \$13.6 B | \$14.1 B |

*After Restructuring Actions

GM would look to draw up to an additional \$4 billion in January to fund operating losses caused by very low levels of North American production, bringing the total draw to \$8 billion. If industry conditions do not improve materially, GM would access another \$2 billion of the term loan to fund operating requirements for the balance of the first quarter, bringing the total draw to as much as \$10 billion by the end of the first quarter 2009.

As noted above, GM is requesting total temporary Federal loan facilities in the amount of up to \$18 billion, \$12 billion to be made available in the form of a term loan and an additional \$6 billion by way of a revolving line of credit. This amount protects against liquidity needs should the Downside industry volume scenario materialize. As indicated in Table 2, assuming the further deterioration in sales rates as described by the Downside Scenario, GM would need an additional \$5 billion in the first quarter (over the Baseline

Scenario), bringing the total potential draw to \$15 billion. This would include use of \$3 billion from the revolving line of credit. At this moment, based upon near-term industry and sales order conditions, it is probable that this Downside Scenario would unfold for the first quarter of 2009.

Table 2 - Temporary Federal Loan - Downside Scenario

| | DOWNSIDE SCENARIO | | | |
|-----------------------------------|-------------------|-----------|-----------|-----------|
| | Dec '08 | Jan '09 | Feb '09 | Mar '09 |
| U.S. Industry (Annual Sales Rate) | 10.5 M | 9.9 M | 9.9 M | 10.0 M |
| GM Operating Cash Flow* | \$0.0 B | (\$6.1 B) | (\$2.6 B) | \$0.7 B |
| GM Liquidity Level | \$9.0 B | \$1.0 B | (\$1.9 B) | (\$2.0 B) |
| Federal Loan (Total Draw) | \$4.0 B | \$11.0 B | \$15.0 B | \$15.0 B |
| GM Liquidity with Federal Loan | \$13.0 B | \$12.0 B | \$13.1 B | \$13.0 B |

*After Restructuring Actions

Under either scenario, any draw from the temporary loan facilities will be conditioned on attainment of specific actions, and subject to agreement with and review by the Oversight Board.

Table 3 summarizes General Motors' 2009-2012 liquidity outlook – and Government support – under Baseline, Downside and Upside industry volume scenarios.

Table 3 - U.S. Industry and GM Liquidity Outlook

| | 2009 | 2010 | 2011 | 2012 |
|---------------------------------------|----------|----------|----------|----------|
| U.S. Industry Outlook: | | | | |
| - Downside | 10.5 M | 11.5 M | 12.0 M | 12.8 M |
| - Baseline | 12.0 M | 13.5 M | 14.5 M | 15.0 M |
| - Upside | 12.0 M | 14.0 M | 15.5 M | 16.2 M |
| GM Liquidity with Federal Loan | | | | |
| - Downside | \$15.2 B | \$14.1 B | \$12.9 B | \$14.3 B |
| - Baseline | \$16.2 B | \$16.9 B | \$16.0 B | \$14.7 B |
| - Upside | \$16.2 B | \$16.1 B | \$16.7 B | \$19.0 B |
| Memo: Total Federal Loan | | | | |
| - Downside | \$16.0 B | \$18.0 B | \$18.0 B | \$16.5 B |
| - Baseline | \$12.0 B | \$12.0 B | \$8.0 B | \$0.0 B |
| - Upside | \$12.0 B | \$10.0 B | \$6.0 B | \$0.0 B |

GM's Baseline industry sales projection is 12 million units in 2009 – a dramatic decline from 16.5 million units in 2007, and even from the 13.7 million units expected in 2008. GM projects the industry will recover moderately to 14.5 million units by 2011 and 15 million units by 2012. This is significantly below the 17 million unit industry levels

averaged over the last nine years and considered to be a reasonably conservative approach to gauging liquidity needs.

Against the Baseline Scenario, GM would make partial use of the temporary Federal loan facilities in 2009 and 2010, with repayments beginning in 2011 and with a full pay down by the end of 2012. As various restructuring, legacy-related and other cost reduction actions take hold, General Motors will be able to operate profitably (at the EBIT level) at industry volume levels between 12.5-13 million units. The company's current Baseline projections show that GM will be profitable on an automotive Adjusted Earnings Before Taxes basis in 2011, after the restructuring actions.

Assuming the lower, depressed industry volumes under the Downside scenario, GM would make full use of the \$18 billion temporary Federal loan facilities through most of 2012. While not shown, Downside industry volumes in 2013 are projected at 13.5 million units. Under this Downside Scenario, the company would expect to begin partial repayment of the temporary Federal loan facilities in 2012.

5.1 Capital Structure Considerations—In addition to liquidity measures, GM's Plan includes, and is conditioned upon, significant sacrifice and deleveraging of GM's balance sheet. Table 4 presents a snapshot of GM's obligations and capital position pre- and post-conversion, on a pro-forma basis.

Table 4 - GM's Capital Obligations Pre- and Post- Conversion

| | 12/31/08 Projected (Bill USD) | 12/31/08 Pro-Forma (Bill USD) |
|--|--|--|
| Total Debt, Incl. VEBA-Related @ 9% Discount Rate | 62.0 | ~30.0 |
| Book Equity | (65.1) | ~(32.0) |
| U.S. Government Funding (Not Included in Debt) | 4.0 | 4.0 |
| Trade Payables | 27.8 | 27.8 |
| Warranty Obligations (Global) | 9.0 | 9.0 |

This pro-forma restructuring will significantly improve GM's creditworthiness, as shown in the detailed financial projections in Appendix C. Combined with operating improvements, this restructuring will enable the company to access funding from the public capital markets or private sources and hence potentially accelerate repayment of the Federal loan. GM will immediately engage current lenders, bond holders, and its unions to satisfactorily negotiate the changes necessary to achieve this capital structure; Oversight Board involvement may be necessary to be successful. As indicated, GM's Plan is to preserve the status of existing trade creditors to avoid collateral damage rippling through the supply chain. Similarly, GM's plan would honor terms and provisions of all outstanding warranty obligations to both consumers and dealers, in the U.S. and globally.

Figure 1 below summarizes GM's projected liquidity position under the Baseline scenario, including projections: 1) prior to restructuring and Government support; 2) after operations and balance sheet restructuring *but before* any temporary loan support; 3) after restructuring *and including* temporary loan support.

Figure 1 - Global Liquidity 2008 – 2012 – Baseline Scenario

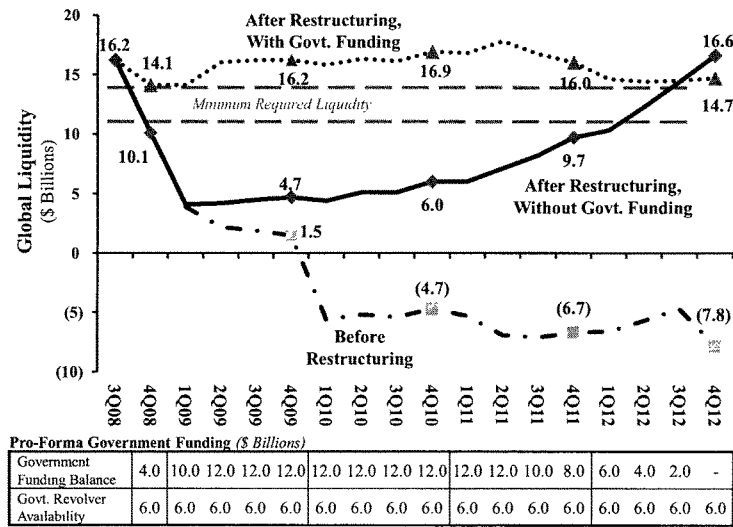
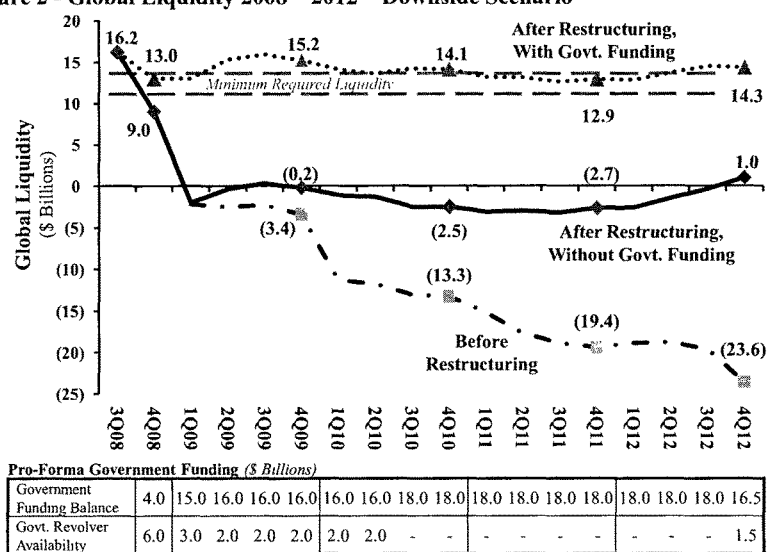


Figure 2 below presents comparable projections under the Downside Scenario for industry volumes.

Figure 2 - Global Liquidity 2008 – 2012 – Downside Scenario



The company will share detailed financial information supporting the liquidity projections above with the Oversight Board, or with other experts such as Congress may designate. Such information is competitively sensitive and would need to be treated on a confidential basis, and we ask for your assistance in this matter. The company's senior leadership will also be available at any time to provide individual or team briefings related to the Plan.

5.2 Stakeholder Considerations—Operating and capital restructuring will require negotiated solutions with various stakeholders, which GM will engage immediately. These sacrifices, enumerated later in this submission, start with management. The Plan calls for further reducing executive ranks and total compensation paid to senior leadership. In addition, the Plan calls for achieving full competitiveness with low-cost competitors in the United States, requiring negotiations with the company's unions around job security provisions, paid time off, and other operating measures. The Plan also targets a balance sheet restructuring related to both debt and obligations pursuant to post-retirement healthcare (i.e., the VEBA obligation).

Given the importance and urgency of this restructuring effort to the company, other domestic manufacturers and the U.S. economy, GM supports the formation of the Oversight Board to ensure that taxpayer investments are protected and, as necessary, support and facilitate an expedited, Administration-led, successful restructuring.

5.3 Loan and Funding Protocol—General Motors proposes the following protocols and timing with regard to the disbursements related to the U.S. Government's funding:

1. Following enactment of legislation, funds in the amount of \$4 billion would be made immediately available to the company, through the term loan facility;
2. An additional draw of up to \$4 billion is anticipated in January 2009 from the term loan facility, and an additional \$2 billion in February or March. This reflects recent, significant reductions to the company's first-quarter 2009 production schedules, based on a dramatic reduction in sales and dealer orders. If U.S. industry conditions remain weak, along the lines of the Downside Scenario, GM may need to access the remaining \$2 billion in the term loan facility and up to an additional \$3 billion, from the Federal revolving credit facility, by the end of the first quarter 2009;
3. GM has already engaged with its labor partners to negotiate changes to be fully competitive with foreign manufacturers operating in the U.S. no later than 2012. In addition, GM will engage relevant stakeholders in the capital structure to complete a conversion and rescheduling of its indebtedness as contemplated in the Plan, including the VEBA obligations. These negotiations will be completed no later than March 31, 2009, and may require Oversight Board support to be successful.
4. In light of the risks in the current environment, GM requests that total temporary Federal loan facilities (term loan and revolving credit combined) be established in the amount of \$18 billion, which would provide adequate liquidity should the Downside industry volume scenario materialize.

The protocols noted above include Government financing in the form of loans. As structured, it is GM's intention to repay or otherwise refinance these obligations at the earliest feasible and prudent date.

The company also respectfully requests that the Government consider structuring a portion of the total \$12 billion of the senior term loan facility noted in #1-2 above instead as preferred stock, a more permanent source of capital (analogous to the TARP). Structured in this way, the Government earns returns (while maintaining TARP – like taxpayer protections), creates a more effective platform for GM's future capital raising activities, and allows the company to devote resources to future product and technology investments.

5.4 Taxpayer Protections—GM agrees that any Government-sponsored funding must protect the taxpayer and provide for strong assurances regarding returns. The Oversight Board should be empowered to oversee any draws from the temporary Federal loan facility and, as noted above, assist with reviewing, approving and facilitating the specifics of the company's restructuring plan. Mechanisms should be put in place to protect taxpayers' investment, including senior status and any temporary loans being immediately callable if Plan benchmarks are not met. Additionally, through warrants provided in consideration of the temporary loan facility, taxpayers will be provided with a means to participate in growth in the company's share price based on successful execution of the Plan. The issuance of these warrants will be limited to avoid triggering a

change of control, which would result in a loss in the company's net carry-forward tax loss credits.

5.5 Shareholder and Management Sacrifices—GM accepts that all stakeholders need to share in the sacrifices required for a successful restructuring. Dividends on GM Common stock, which were suspended in August 2008 as part of ongoing restructuring-related initiatives, will remain suspended during the period that the company makes use of the temporary Federal facility. Shareholders will also sacrifice by way of the diluted effects of both capital restructuring and the issuance of warrants to taxpayers.

It is longstanding GM policy for senior executives to have most (80% or more) of their compensation at risk based on the company's performance to align with shareholder interests. For the past five years, executives have not received the majority of the value from this at-risk compensation as: all stock options are underwater; long-term plans based on relative total shareholder return have not paid out; and other equity-based compensation has significantly declined in value. GM's Chairman and CEO and Vice Chairmen made voluntary reductions in their salaries by as much as 50% in 2006 and 2007, and are willing to make further sacrifices for 2009. Such sacrifices are as follows:

- The Chairman and CEO will reduce his salary to \$1 for 2009. He will not receive an annual bonus for 2008 and 2009.
- Consistent with this action, members of the GM Board of Directors will reduce their annual retainer to \$1 for 2009.
- The next four most senior officers (Executive Vice Presidents and above) will reduce their total cash compensation by approximately 50% in 2009, which includes no bonus paid for 2008 and 2009 and a 30% salary reduction for the President and COO, and 20% salary reductions for the remaining three.

The company believes the above actions on senior officer and performance-linked compensation recognize its obligations to both protect taxpayer interests and retain employees vital to a successful restructuring, and deliver maximum value to our shareholders.

GM agrees to maintain the strictest oversight on Executive compensation including annual bonuses and golden parachutes. The top 5 most senior officers do not have any employment or severance agreements. Post-2009 compensation will be determined in conjunction with the Oversight Board, and would be dependent upon the achievement of the benchmarks in the Plan.

5.6 Corporate Aircraft—GM is immediately ceasing all corporate aircraft operations, unfortunately impacting approximately 50 hourly and salaried employees. GM is currently exploring options for transferring the aircraft to another charter service operator and/or pursuing disposal of the aircraft. These actions are in addition to recently announced decisions to reduce the total number of corporate aircraft.

5.7 GMAC Considerations—General Motors currently has two primary relationships with GMAC. As shareholder, GM indirectly owns 49% of GMAC's common stock

equity and over \$1 billion in face value of preferred equity of GMAC (the remaining 51% of GMAC common being owned by an investment consortium led by Cerberus Capital Management). GM and GMAC also have extensive commercial agreements relating primarily to vehicle and dealer financing.

Given the current financial market turmoil and depressed economy, GMAC has been facing significant income and liquidity challenges that adversely affect both the value of GM's investments in GMAC and the extent to which GMAC is able to provide financing for GM vehicles and GM dealers. As a result of these pressures, GMAC has reduced its financing of vehicle sales and leases, including completely exiting the retail vehicle financing business in certain international markets. These developments in turn have made it harder for consumers to find financing and have resulted in increased costs to GM and lost sales.

GMAC is currently pursuing approval to become a bank holding company (BHC) by converting its industrial loan company subsidiary into a full service, FDIC-insured bank. If GMAC is approved as a BHC, GMAC Bank would have an increased retail deposit focus, which is expected to provide a more stable and lower cost funding source to GMAC. As a BHC, GMAC would also have the ability, at the discretion of the Treasury, to participate in recent Government-sponsored liquidity and capital programs. GM expects that a lower cost of funding at GMAC would enable it to support an expanded retail and lease business at lower cost to consumers and would positively impact pricing to GM for GM-sponsored marketing incentives (e.g., 0% financing offers). GM also believes that GMAC, as a BHC, would be in a far stronger position to provide financing for GM dealers. All these improvements could be expected to result in increases in GM vehicle sales.

In order to become a BHC, GMAC would have to satisfy certain key regulatory requirements. First, GMAC would have to obtain additional capital in order to meet regulatory capital requirements. Second, GM and the Cerberus investment consortium would be required to restructure their ownership interests in GMAC. Finally, GM and GMAC would have to revise various aspects of their commercial agreements.

GM believes that a healthy GMAC is vital to GM's success and is committed to supporting GMAC's BHC application. GM's Plan requires a healthy, stable and lower cost source of credit to support vehicle sales and GM will take all reasonable and necessary actions to effect GMAC's conversion to a BHC and to ensure that GMAC earns an adequate risk-adjusted return while running the bank in a safe and sound manner. GMAC is working with the Federal Reserve to gain final approval for GMAC to become a BHC by the end of the year.

5.8 Pension and Healthcare Considerations—GM remains committed to fulfilling its obligations to its employees and retirees related to pension and healthcare, although the specifics of these obligations change over time due to competitive realities. In this regard, since 2001, GM has taken numerous actions to address the cash flow and balance sheet impacts of rapidly escalating healthcare and pension costs and liabilities. Most notably, GM agreed with the UAW to shift the liability of paying for health care for hourly

retirees from GM to an independent trust (VEBA), scheduled to occur on January 1, 2010. Additionally, GM and the IUE-CWA have recently agreed to a similar arrangement to become effective January 1, 2012, for their retirees. For the salaried population, those hired on or after January 1, 1993, receive no healthcare benefit in retirement, and for those who retain coverage GM has capped retiree health care spending at 2006 levels. In addition, effective January 1, 2009, GM will no longer provide supplemental healthcare coverage to salaried retirees at age 65.

As for pension costs, GM no longer provides a defined benefit pension plan for salaried employees hired on or after January 1, 2001, and no longer provides a traditional pension plan for new UAW hourly employees. In addition, GM suspended matching contributions for salaried active defined contribution participants effective November 1, 2008. GM's financial health, of course, is vital to the income security of GM plan beneficiaries, as their current and future pension benefits are at risk if the plan is terminated and/or taken over by the Pension Benefit Guaranty Corporation. At September 30, 2008, the company's pension plans were slightly overfunded. As GM previously shifted Plan assets away from equities in the past two years, the recent downturn in the stock markets has not impacted GM's pension assets to the same degree as has been generally true for other plans. GM expects to meet or exceed pension funding targets as established by the Pension Protection Act. Appendix C provides more detail on the historical funded status of the U.S. pension plans as well as an estimate of funded status as of October 31, 2008.

Federal loan assistance will allow GM to fulfill obligations to employees and retirees related to pensions and healthcare.

6. Principal Restructuring Plan Elements

General Motors is committed to being America's automobile manufacturer of choice, being the fuel economy leader, being cost competitive, and being profitable and self-sustaining. The company has made significant progress in the last several years across many of these important fronts, either leading—or being among the leaders—in many of these areas (as indicated in Appendix A).

Events of the past few months have had a devastating impact on GM's capital and liquidity plans, prompting the request for temporary Federal assistance. Many elements of the Plan, previously set in motion, remain the right actions to take for long-term competitiveness and viability.

Nonetheless, the Plan now includes accelerated emphasis in four key areas:

- reduction in brands, nameplates and retail outlets, to focus available resources and growth strategies on the company's profitable operations;
- changes in wages and benefits to achieve full competitiveness with foreign manufacturers in the U.S. by no later than 2012;
- changes in the company's VEBA-related obligations;
- balance sheet restructuring and supplementing liquidity via temporary Federal assistance.

Other key elements of the Plan, under way for some time now, include:

- full compliance with the 2007 Energy Independence and Security Act, and extensive investment in a wide array of advanced propulsion technologies;
- further manufacturing and structural cost reductions through increased productivity and employment reductions;
- continued shift of the portfolio to smaller, more fuel efficient vehicles;

Taken together, the operating and capital restructuring elements will significantly improve the company's profitability and cash flow for the long term, and enable full repayment of any temporary Federal assistance by 2012 (based on Baseline industry volumes). Further detail on these restructuring elements is provided in the following sections.

6.1 Marketing and Retail Operations—Today, General Motors competes in the United States with 8 brands. Chevrolet, Cadillac, Buick, and GMC represent the company's core brands, accounting for 83% of current sales. The company will focus substantially all of its product development and marketing resources in support of these brands. This will result in improvements in awareness, sales, and customer satisfaction for these 4 core brands.

Significant efforts have been expended to combine the Buick, Pontiac and GMC (BPG) brands into a single dealer distribution network, with approximately 80% of these brands' combined sales sold through BPG-branded stores. This channel will be fully competitive in terms of total entries offered, with Pontiac serving as a specialty/niche brand with reduced product offerings solely intended to complement Buick and GMC models and reinforce the channel as a whole.

Hummer has recently been put under strategic review, which includes the possible sale of the brand. GM will also immediately undertake and expedite a strategic review of the Saab brand globally. Finally, Saturn, which has performed below expectations, has a unique franchise agreement and operating structure. As part of the Plan, the company will accelerate discussions with Saturn retailers and explore alternatives for the Saturn brand.

As indicated in Table 5, the Plan focuses the company's resources in the U.S. around a smaller, more profitable set of nameplates (40 by 2012) with further consolidations in GM's dealer network planned to get to a more profitable and stronger dealer network.

Table 5 - Restructuring of U.S. Marketing and Dealer Operations

| | Actual | | | Plan |
|---|--------|-------|-------|-------|
| | 2000 | 2004 | 2008 | 2012 |
| Total Nameplates | 51 | 63 | 48 | 40 |
| GM Dealer Count (Locations) | 8,138 | 7,497 | 6,450 | 4,700 |
| J.D. Power Sales Satisfaction (% of GM Brands Above Industry Avg.) | 100% | 100% | 100% | 100% |

As indicated, the number of GM retailers is expected to decline to 4,700 by 2012. This will occur primarily in metropolitan and suburban areas where GM has too many dealers to serve the market. In the Plan, it is projected these dealers will be reduced by 35%, increasing annual throughput for the remaining outlets to a more competitive level with other high-volume manufacturers. GM's distribution strength in rural areas, which is a significant competitive advantage, will be largely preserved. GM intends to have the right number of brands, sold by the right number of dealers, in the right locations to obtain maximum profitability for GM and the retailer network.

6.2 Manufacturing Cost Reduction—General Motors, together with our union partners, has achieved significant productivity improvements, today having the most productive assembly plants in 11 of 20 product segments as measured by the Harbour Report. As shown in Table 6 below, the company now has a manufacturing system capable of industry-leading workplace safety, segment-leading quality, and a cost position moving to parity with non-unionized foreign competition operating in the U.S.

Table 6 - Manufacturing Improvements

| | Actual | | | Plan |
|---|---------|---------|--------|---------------|
| | 2000 | 2004 | 2008 | 2012 |
| U.S. Assembly Productivity (Harbour Report - Hours per Vehicle) | 27.66 | 23.76 | 22.83 | Improved |
| Workplace Safety - OSHA Lost Work Day Rate (Cases per 200,000 hrs) | 0.54 | 0.27 | 0.12 | Improved |
| U.S. Landfill-Free Manufacturing Sites | 0 | 0 | 13 | 30 |
| U.S. Employment (Hourly and Salaried) | 191,465 | 167,465 | 96,537 | 65,000-75,000 |
| U.S. Powertrain, Stamping and Assembly Plants | 59 | 64 | 47 | 38 |
| U.S. Flexible Plants (Assembly Only) | 22% | 26% | 60% | 77% |

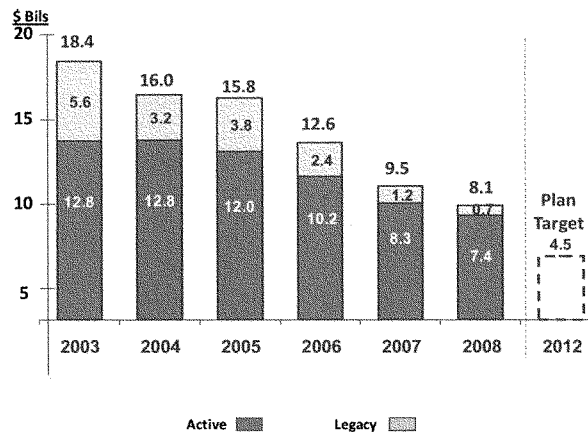
General Motors has become the global automotive benchmark for workplace safety, sustaining lost workdays at a level one-third that of Japanese, Korean or German manufacturing operations located in the United States. These results have been achieved

while also becoming the industry benchmark for sustainable, environmentally-friendly manufacturing methods, with 13 General Motors U.S. sites being 100% 'landfill-free' by year-end 2008, and plans to achieve this status at 50% of our manufacturing operations by year-end 2010. General Motors is also focused on using renewable energy in its manufacturing operations, with five sites today using landfill gas, compared to Toyota which has none.

Since 2005, GM has been implementing a manufacturing and product strategy that allows GM to be more nimble and responsive to changes in consumer preferences and in the marketplace. In 2008, 60% of U.S. assembly plants are able to build multiple types of vehicles on common, flexible systems.

General Motors' U.S. hourly manufacturing costs have declined markedly from \$18.4 billion in 2003 to an estimated \$8.1 billion in 2008, as indicated in Figure 3. This reduction reflects productivity improvements, significant reductions in post-employment healthcare expense due to benefit plan changes, and volume declines.

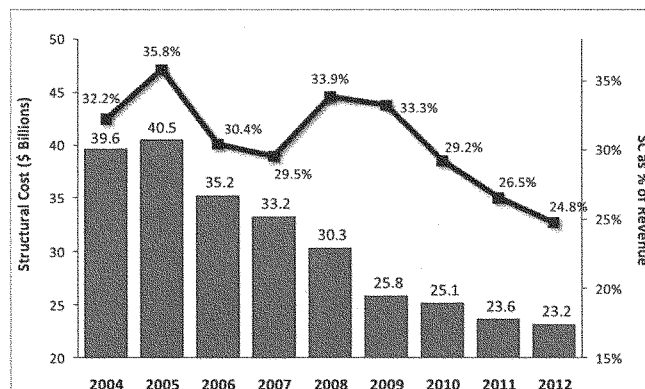
Figure 3 - U.S. Hourly Manufacturing Cost 2003-2012



Reflecting labor negotiations completed over a year ago, General Motors' total cost per hour for new hires can now be as low as \$25, growing to \$35 over time, significantly below the average fully-loaded labor cost for Toyota, which public sources indicate is between \$45 and \$50 per hour. With the recently negotiated wage rates, turnover expected in our workforce, planned assembly plant consolidations, further productivity improvements in the Plan, and additional changes to be negotiated, GM's wages and benefits for both current workers and new hires will be fully competitive with Toyota by 2012.

6.3 Structural Cost Reduction—Significant structural cost reductions have been achieved in GM's North America operations, of which the U.S. is approximately 80%, as indicated in Figure 4.

Figure 4 - GM North America Structural Cost 2004-2012



Reductions in legacy costs, especially relating to retiree healthcare and pension expense for both hourly and salaried employees, and the manufacturing rationalizations previously discussed, account for the bulk of the cost reductions achieved through 2008.

The Plan will further reduce the company's structural costs by approximately \$5 billion annually, or 16%, in the 2009/2010 timeframe. This reflects the full benefit of negotiated 'legacy cost'-related changes being realized in 2010, when exposure to all hourly healthcare retiree-related expense is largely removed from General Motors' balance sheet. This is a significant and important change to the company's long-term viability. In the past 15 years alone, General Motors spent over \$103 billion on retiree healthcare and pension expense, crowding out investment otherwise made in quality, safety, fuel efficiency and innovation. Further, such funding has decimated GM's balance sheet, resulting in negative stockholder equity of about (\$60) billion as of September 30, 2008.

6.4 Fuel Efficiency Improvements—General Motors today offers 20 models with 30 miles per gallon or more on the highway—more than any other manufacturer. General Motors is also the *world leader* in flex fuel technologies, with over 3 million flex fuel-equipped vehicles on U.S. roads today. Flex fuels represent the fastest way for the United States to reduce its dependence on imported oil.

While remaining a full-line manufacturer, GM will substantially change its product mix over the next four years, and launch predominately high-mileage, energy-efficient cars and crossovers. The Plan includes introducing this market's smallest 4-passenger vehicle, achieving higher fuel economy than the 2-passenger Smart Fortwo, the most fuel-efficient non-hybrid vehicle in the U.S. market today. In 2009, the Plan includes seven

new vehicle launches in the United States, all of which will be either car or crossover models.

The Plan includes further increases in flex-fuel and hybrid-equipped vehicles. In 2012, over 50% of GM's new vehicle sales will be flex-fuel capable. Regarding hybrids, GM offers six models today – more than any other manufacturer – and will introduce the VUE Two-Mode hybrid, along with the Silverado and Sierra hybrids in 2009. By 2012, GM will offer 15 hybrid models.

In the Plan, further shifts to smaller displacement gas engines will occur—8-cylinder engines are replaced by 6-cylinder engines, 6-cylinder engines are replaced by 4-cylinder engines. More extensive use of turbo-charging is enabling the shift to smaller displacement engines, providing better fuel economy with normal operations but offering power in reserve for emergency situations. 4-cylinder engine usage, for example, will increase by 42% by 2012, and fuel-saving 6-speed automatic transmission volume will increase by 400%, to over 90% of GM's U.S. automatic transmission sales volume.

Table 7 contains Plan fleet-average fuel economy for GM cars and trucks in 2012. The indicated levels fully comply with the 2007 Energy Independence and Security Act, as is the company's commitment in all years.

Table 7 - Fuel Efficiency Improvements

| | Actual | | | Plan |
|--|--------|------|------|------|
| | 2000 | 2004 | 2008 | 2012 |
| Car Fleet Average (MPG) | 27.7 | 29.0 | 31.6 | 37.3 |
| Truck Fleet Average (MPG) | 21.0 | 21.8 | 24.6 | 27.5 |
| Models >30 mpg (Highway) | 8 | 8 | 20 | 24 |
| Flex-Fuel (% of U.S. Sales) | 2% | 6% | 17% | 55% |
| Hybrid Models | 0 | 2 | 6 | 15 |
| Car/Crossover Nameplates (% of Total) | 61% | 52% | 65% | 73% |

During the 2009-2012 Plan window, General Motors will invest approximately \$2.9 billion in alternative fuel and advanced propulsion technologies. These technologies, some of which are featured in Table 8, offer fuel economy improvements ranging from 12% to 120%, compared to conventional gas engines. General Motors is partnering with other manufacturers on select technologies, to spread the very significant development expenses involved, and is open to other cooperative ventures. Early generations of these technologies involve significant development costs, with volumes expected to be low. Programs developed with Federal agencies to incentivize the purchase of these sophisticated, high-mileage vehicles will help build volume, grow the supplier base, and enable faster learning cycles and lower costs.

Table 8 - GM Advanced Propulsion Development

| Technology | Fuel Economy Improvement Impact | 2009-2012 Investment* |
|---|--|------------------------------|
| Hybrid (BAS+) | 12-15% | \$467 M |
| Strong Hybrid (Large vehicle) | 30-35% | \$515 M |
| Strong Hybrid (Small vehicle) | 35-55% | \$315 M |
| Extended-Range Electric Vehicles (e.g. Volt) | 100-120% | \$758 M |

*Capital and engineering; additional investment in 2013 and beyond

Implementation of this Plan will strengthen General Motors' ability to move these advanced vehicle technologies to higher volumes in the 2012-2020 timeframe. As a result, GM fully expects to meet the fuel economy standards as mandated by the Energy Independence and Security Act of 2007.

GM will launch the ground-breaking Chevrolet Volt in 2010. As indicated in Table 8, GM is investing over \$750 million in the Volt and its propulsion system, prototypes of which are currently on test at GM's Milford Proving Grounds. An extended-range electric vehicle, the Volt will deliver up to 40 miles on a single electric charge, well within the daily commute of approximately 80% of Americans. Volt represents a fundamental reinvention of the American automobile industry, creating new growth and environmentally-friendly/sustainable industries, and represents a giant step toward energy independence. No other car company has made such a commitment to the American people. It involves the development of advanced batteries, power electronics, systems integration and manufacturing methods. The company's product plan includes additional vehicles utilizing Volt's extended-range electric vehicle system and potentially, the assembly of battery packs in the United States.

General Motors will also continue to invest in hydrogen fuel cell technology, which – when commercially deployed – will reduce automobile emissions to non-polluting water vapor. Already, General Motors has deployed 90 Equinox compact SUVs in U.S. customer hands, in what constitutes the world's largest demonstration fleet of hydrogen fuel cell vehicles.

On November 17, 2008, General Motors submitted to the Department of Energy its first Section 136 loan application, related to eight specific, high fuel-efficiency projects, in the total amount of \$3.6 billion. Applications were made for the Chevrolet Volt, Chevrolet Cruze and Saturn Two-Mode Hybrid, which launch in the next 24 months. Applications were also made on behalf of several fuel-saving technologies, including hybrid and electric vehicle components, flex-fuel engines and automatic transmissions.

A second application, related to additional high-mileage vehicle and powertrain programs in development, is targeted for submission the week of December 1, and is estimated at \$4.7 billion. In both cases, GM has made significant fuel efficiency-related investments

that, as a result of having been made prior to the enactment of Section 136 funding, do not qualify for such funding.

General Motors estimates that the projects comprising the first Section 136 loan application will directly create and/or sustain in excess of 10,000 jobs within the United States, rightfully thought of as “green” jobs. Subsequent applications will involve additional “green” job creation.

By combining the jobs resulting from advanced technology research and development activities, with the “green” jobs noted above and similar jobs which GM’s activities support across its supply chain, the company believes it will be one of the significant creators of “green” jobs in the United States. GM will serve as anchor and catalyst in the automobile industry, helping suppliers, dealers and the 3 million related employees transform the U.S. economy, especially related to more fuel-efficient, lower-emitting vehicles.

General Motors will continue to support efforts to adopt consistent, long-term national policies to address energy security and climate change that help accelerate the adoption, by the consumer, of advanced vehicle technologies.

6.5 Product Portfolio Changes—Based on industry awards and sales results, many of the company’s products are resonating with both the media and consumers. Three of the last four Car/Truck of the Year awards in the United States were awarded to GM products—the Saturn Aura, Chevrolet Silverado, and Chevrolet Malibu. Very recently, GM’s Opel brand won European Car of the Year for its new Insignia sedan, derivatives of which will be manufactured in the United States in the near future.

The company’s increasing success with new model introductions is, importantly, being rewarded in very tangible ways. Specifically, contribution margins are improving significantly on our new models. As examples, the new Cadillac CTS and Chevrolet Malibu are generating contribution margin improvements of more than 30% and 50% respectively, with significant improvements in residual values as well.

Importantly, 22 of 24 new vehicle introductions in 2009-2012 will be cars and crossovers. Twenty of these models will come from GM engineering centers having a long history of designing vehicles for \$6-\$8 per gallon gasoline. GM’s move to global product development represents a major restructuring move, putting it on equal footing when compared to Toyota and well ahead of other global manufacturers. The company is already realizing savings in the form of lower engineering and capital expense per model. By 2012, approximately 68% of General Motors’ car sales volume in the United States will be models derived from new, global architectures.

General Motors is focused on delivering high-quality and exciting cars, crossovers and trucks to American consumers. We paid a steep price because of quality problems and relatively low customer satisfaction during the 1970s and 1980s. While J.D. Power’s Initial Quality Survey (IQS), among other third party measures, shows that we have substantially overcome the quality gap compared to many imported makes, perception

continues to lag this reality. In fact, the most recent IQS results show GM and Ford tied for top quality honors with 11 segment-leading vehicles each.

Among various initiatives to address the company's perceived quality gap, GM today offers the industry's most comprehensive warranty and related coverage. Importantly, as part of the company's financial restructuring efforts, terms and conditions of all outstanding warranties are unaffected.

Table 9 highlights further improvements in quality contained in the Plan:

Table 9 – Vehicle Quality Improvements

| | Actual | | | Plan |
|--|--------|------|------|------|
| | 2000 | 2004 | 2008 | 2012 |
| J.D. Power Initial Quality Survey (problems per hundred vehicles) <i>indexed due to 2006 survey redesign: industry avg. = 100</i> | 106 | 101 | 101 | 84 |
| Warranty – Problems per Vehicle | 1.6 | 1.1 | 0.8 | 0.5 |
| J.D. Power Service Satisfaction (% of GM Brands Above Industry Avg.) | 85% | 100% | 100% | 100% |
| Total Nameplates | 51 | 63 | 48 | 40 |
| - Car/Crossover Nameplates | 31 | 33 | 31 | 29 |
| - Truck Nameplates | 20 | 30 | 17 | 11 |

In the Plan, further improvements in Initial Quality scores and fewer warranty problems per vehicle (relative to competition) are expected. These improvements result from a change in the company's vehicle development process. In 2005, GM abandoned a 97-year history of each of its four regions developing vehicles for their respective markets; GM's product development activities were globalized. This has led to significant economies of scale in the design, engineering, tooling and manufacturing of globally common vehicles. An additional benefit is organizational focus on fewer, more common vehicles, resulting in higher quality.

6.6 Significant Capital and Cost Reductions—General Motors' various restructuring initiatives over the past few years have been designed to improve its competitive position and ultimately the company's profitability, liquidity and capital structure.

As noted in Appendix B, the company's accumulated restructuring actions, when viewed against the then-current economic and industry outlook for 2009-2013, indicated adequate liquidity to implement the Plan. Industry sales outlooks have plummeted, rendering the company's liquidity and capital plans unworkable. Significant 'self-help' actions have been taken, including measures to further improve liquidity by approximately \$20 billion, the specifics for which are summarized in Table 10:

Table 10 – 2nd Half 2008 Liquidity Actions

| | Additional Cash Savings Through YE 2009 | |
|---|--|------------------|
| July 15th Announced Liquidity Actions | | |
| GMNA Structural Cost | ~ \$2.5B | On-Track |
| Salaried Employment Savings | ~ \$1.5B | Largely Complete |
| Capital Expenditure Reductions | ~ \$1.5B | On-Track |
| Working Capital Improvements | ~ \$2.0B | On-Track |
| UAW VEBA Deferrals | ~ \$1.7b | Complete |
| Dividend Suspension | ~ \$0.8B | Complete |
| Subtotal Operating & Other Actions | \$10B | |
| Asset Sales | ~ \$2-4B | In Process |
| Capital Market Activities | ~ \$2-3B | Behind Schedule |
| Total Announced July 15 | \$15B | |
| Nov 7th Announced Liquidity Actions | | |
| Capital Expenditure Reductions | ~ \$2.5B | On-Track |
| GMNA Structural Cost Reductions | ~ \$1.5B | On-Track |
| Working Capital Improvements | ~ \$0.5B | On-Track |
| Further Salaried Actions | ~ \$0.5B | On-Track |
| Total Announced Nov 7 | \$5B | |
| Total Liquidity Impact Through YE 2009 | \$20B | |

GM is taking a number of actions to restructure both its operations and its balance sheet, including the sale of various non-core assets with estimated proceeds of at least \$2.0 billion. In total, these actions will lower the company's breakeven point for long-term viability, enabling profitable operations at industry sales rates below 13 million units (at the EBIT level).

Every stakeholder in the company's success has been engaged in all restructuring actions taken to date. However, as discussed earlier, the company's liquidity outlook requires temporary Federal assistance, given a deep and entrenched recession not foreseen one year ago.

7. Demand Stimulation

In addition to providing support to GMAC in its ability to fund consumer and dealer lending needs, and providing support to GM with the temporary Federal loan facility, the Government can assist General Motors, and the industry generally, through actions related to boosting consumer confidence and spending, employment, and easier access to credit. In addition, policies or incentives would be particularly helpful that promote the purchase of new fuel-efficient vehicles, the purchase of new hybrids and other advanced propulsion vehicles (e.g., Volt), and tax credits for scrapping older, higher carbon-emitting vehicles.

8. Industry Collaboration

General Motors' Plan creates a viable, successful and contributing company going forward. It is neither predicated nor based on major industry consolidation or major alliance/venture activities, although the company would be open to any Federal Government initiatives or proposals in this regard. The company also sees significant potential to engage in broader industry collaboration on a number of important fronts. For example, we see benefits accruing to the economy and the environment with U.S. automakers and suppliers teaming with the U.S. Government to create shared production joint ventures for first- and second-generation technology commercialization. The U.S. Government could also play a key role in providing the needed "venture capital" and become a major customer for these early generation vehicles, paving the way for the commercially high sales volumes necessary for new technology to deliver cost-effective, societal benefits. The U.S. taxpayers would also benefit from the "spin-off" value of the United States-based technology production ventures that would result. Strategic partnerships among Government, industry and academia to develop appropriate green mobility products in response to shifting energy resources, consumer demand for greener transportation, promising advanced technology and new community design will be key to meeting the Nation's energy and environmental objectives.

9. Summary

General Motors is committed to the success of the Plan summarized in this Congressional submission. The company's responsibility to its customers, shareholders, employees, retirees, dealers and suppliers is recognized, and to the Congress as well – should it decide to provide the requested temporary loan assistance.

With Federal support, GM will invest significantly in reinventing the automobile, with special emphasis on fuel efficiency, energy independence, and reductions in greenhouse gas emissions. These investments will contribute to the growth of America's technological innovation, the development of advanced manufacturing capabilities, and the generation of high quality jobs in line with the "new 'green' economy".

The company's Plan provides for a viable, long-term enterprise, and the American taxpayer will be repaid in full and share in the profits that are enabled by the requested temporary Federal loan assistance.

GM is proud of its century of contributions to the growth of our nation. We look forward to making an equally meaningful contribution over the next century.

Respectfully submitted,

General Motors Corporation

Appendix A

Summary of GM Restructuring Actions and Results

A.1 Product Portfolio

- Recognition of improved GM offerings
 - 3 of last 4 “North American Car/Truck of the Year” awards – Saturn Aura, Chevrolet Malibu and Chevrolet Silverado
 - Since 2005, 180 U.S. product awards
- Industry telematics leader with over 5 million OnStar customers
- 11 of last 13 new products introduced have been cars and crossovers
- Reduced total U.S. vehicle nameplates from 63 (2004) to 48 (2008); U.S. truck nameplates reduced from 30 (2004) to 17 (2008)
- Focused product development, technology and marketing resources on 4 core U.S. brands

A.2 Fuel Efficiency

- Among U.S. industry leaders in fuel economy
 - 20 models with greater than 30 mpg (highway), more than other manufacturers
 - 7 of 20 Ward’s Automotive segment leader positions, more than other manufacturers
 - 6 Hybrid models
 - Two-Mode hybrid system improves fuel economy 50% in city driving; received 2008 Green Car of the Year award
 - GM will be the only manufacturer with a hybrid pickup truck; most affordable hybrid offerings in the market
- Over 3 million GM Flex-Fuel Vehicles on U.S. roads
- Largest fuel cell demonstration fleet (90 Chevrolet Equinox Fuel Cells on U.S. roads)
- Approved the Chevrolet Volt for 2010 introduction

A.3 Marketing/Retail Operations

- Migrating U.S. distribution network to 4 channels - reduced dealers from 7,500 (2004) to 6,500 (2008)

A.4 Manufacturing/Productivity

- U.S. Productivity leader
 - Top assembly plant productivity in 11 of 20 product segments
 - 5 of the top 10 most productive engine plants
 - #1 most productive transmission plant
- Set the U.S. industry benchmark for workplace safety
 - One third the level of “lost workdays” as U.S.-based Japanese, German and Korean manufacturers
 - 50% improvement over the past 5 years
- Industry benchmark in environmental quality
 - 13 U.S. sites that are 100% land-fill free
 - 5 U.S. sites using landfill gas
 - 2.6% of GM’s U.S. energy consumption from renewable resources (photovoltaics and landfill gas)
- More J.D. Power quality segment leaders than Toyota
- 48% reduction in warranty repairs since 2006
- Reduced U.S. Powertrain, Stamping and Assembly plants from 64 (2004) to 47 (2008)
- Breakthrough collective bargaining agreement
 - Total U.S. hourly manufacturing costs reduced nearly 50% (from \$16 billion in 2004 to \$8.1 billion in 2008)
 - Hourly new-hire wages reduced from \$19.35 to \$14.65

A.5 Structural Costs

- Reduced annualized North American structural cost by \$10B since 2005
- Employment reduced 42% from 167,000 (2004) to 97,000 (2008)
- Global functional organizations streamlined
 - Lowered engineering and capital expense per vehicle through global product development
 - Increased scale economics
- Salaried workforce expense reduced by 20% on a run-rate basis in 2008

A.6 Capital and Cost Reductions

- Implementing “self-help” actions to improve liquidity by \$20B before the end of 2009
 - Significant asset sales completed or underway
 - GMAC (51%)
 - Allison Transmission
 - Suzuki
 - Isuzu
 - Fuji Heavy Industries
 - Electromotive Division
 - AC Delco (in process)
 - HUMMER (in process)
 - Strasbourg Powertrain Facility (in process)
- Dividends on GM stock suspended in August 2008

A.7 GM Executive Compensation

- Total Compensation in the Bottom Quartile Compared to the Benchmark Companies
 - No bonuses 2005, 2008
 - Below target bonuses 2004, 2006, 2007
 - No long term incentive pay out 2004 through 2008
 - All stock options 1999-2008 underwater
 - Value of restricted stock units fell with GM’s stock price
- In addition, CEO/Chairman, COO/President and Vice Chairman
 - Salaries reduced as much as 50% from 2006 to 2007
 - CEO has or will forfeit 330,000 options in 2008 and 2009
- Other
 - Supplemental Executive Retirement Plan (SERP) frozen and adopted lower accrual rate consistent with the tax-qualified plan on December 31, 2006
 - 401k matching contribution eliminated in 2008
 - Post-65 healthcare benefits eliminated for all salaried employees, including executives

As a result of these pay practices, as indicated in the table below, the actual compensation received compared to the Proxy reported compensation shows that the CEO and COO have actually earned far less than what is publicly reported.

| | 2007 | | |
|-------------------|------------------------------|--------------------------|-------------------------------------|
| | Actual Compensation Received | Proxy Total Compensation | Actual Compensation as a % of Proxy |
| G.R. Wagoner, Jr. | \$1.8 M | \$14.4 M | 13% |
| F.A. Henderson | \$1.9 M | \$7.6 M | 25% |

Appendix B

Economic Collapse

One year ago, following the conclusion of negotiations with the UAW, GM projected 2008 year-end liquidity was deemed adequate, in terms of maintaining operations and fully executing the Plan.

As the following table indicates, economic and industry conditions have collapsed, greatly reducing GM's liquidity.

Exhibit B-1: U.S. Economic Indicators

| | Year Ago | Now |
|---|----------|----------|
| 2009 U.S. GDP Forecast | 2.5% | -1.0% |
| 2009 U.S. Industry Volume (Total Vehicles) | 16.0 M | 12.0 M |
| 2009 GM U.S. Volume | 3.3 M | 2.7 M |
| U.S. Consumer Confidence | 76.1 | 57.9 |
| GM Common Share Price | ~\$30 | ~\$5 |
| GM Global Cash Position (9-30) | \$30.0 B | \$16.2 B |

The combination of the sharp run-up in oil and gas prices, rapid declines in the housing/mortgage/credit sectors, and the lowest levels of consumer confidence in nearly 30 years have conspired to dramatically reduce both the economic and automobile industry outlooks. Whereas one year ago, the consensus forecast for industry volume in 2009 was 16 million units; that number now stands at 12 million. Last month, industry sales were at their lowest per capita level in half a century.

The impact on GM's sales, cash position and liquidity has been devastating. Given that the credit markets remain effectively 'closed', the company has taken additional actions to bolster liquidity, as detailed in the main body of this submission.

Appendix C

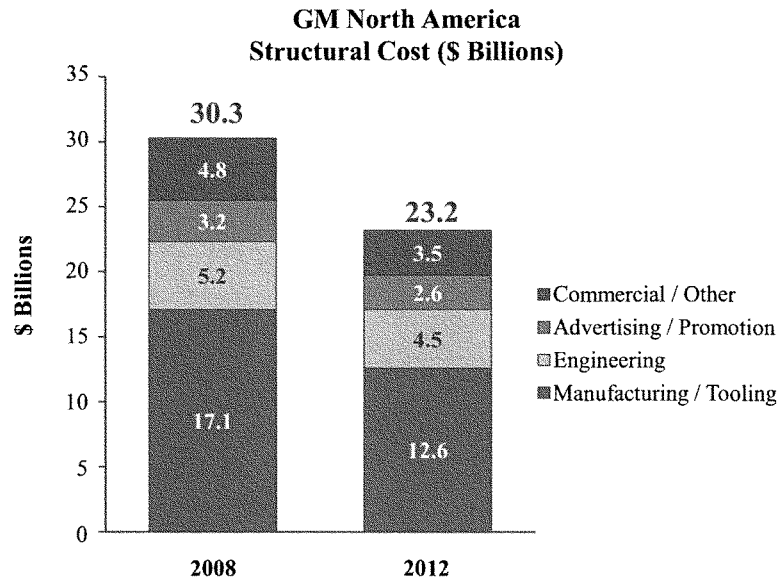
Supporting Financial Information

(additional Proprietary and Confidential information available upon request)

Exhibit C-1: GDP and Industry Sales

| GDP Projections <i>(Baseline Scenario)</i> | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|-------------|-------------|-------------|-------------|-------------|
| U.S. | 1.2% | -1.0% | 1.6% | 2.4% | 2.4% |
| Western Europe | 1.0% | -0.4% | 0.8% | 1.7% | 2.1% |
| China | 9.8% | 8.0% | 8.1% | 8.3% | 8.5% |
| Russia | 6.8% | 3.5% | 4.5% | 5.5% | 5.5% |
| Brazil | 4.8% | 3.0% | 3.7% | 3.7% | 3.7% |
| India | 7.5% | 6.8% | 7.2% | 7.5% | 7.5% |
| Global | 2.4% | 1.0% | 2.5% | 3.1% | 3.3% |

| Total Auto Industry Volume Forecast <i>(units, millions)</i> | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|-------------|-------------|-------------|-------------|-------------|
| United States | | | | | |
| Upside Scenario | 13.7 | 12.0 | 14.0 | 15.5 | 16.2 |
| Baseline Scenario | 13.7 | 12.0 | 13.5 | 14.5 | 15.0 |
| Downside Scenario | 13.7 | 10.5 | 11.5 | 12.0 | 12.8 |
| Europe | | | | | |
| Baseline & Upside | 22.2 | 20.0 | 20.1 | 21.1 | 22.7 |
| Downside Scenario | 22.2 | 18.0 | 18.1 | 19.1 | 20.7 |
| Asia-Pacific | 21.6 | 22.0 | 24.0 | 25.6 | 27.6 |
| Latin America, Africa, Middle East | 7.6 | 7.0 | 7.2 | 7.5 | 8.0 |
| Global Total | | | | | |
| Upside Scenario | 68.5 | 63.8 | 67.7 | 72.0 | 77.1 |
| Baseline Scenario | 68.5 | 63.8 | 67.2 | 71.0 | 75.9 |
| Downside Scenario | 66.5 | 60.3 | 63.2 | 66.5 | 71.7 |

Exhibit C-2: Pro-Forma North America Structural Cost

**Assumes Baseline Scenario volumes*

Exhibit C-3: Pro-Forma Global Liquidity Balance

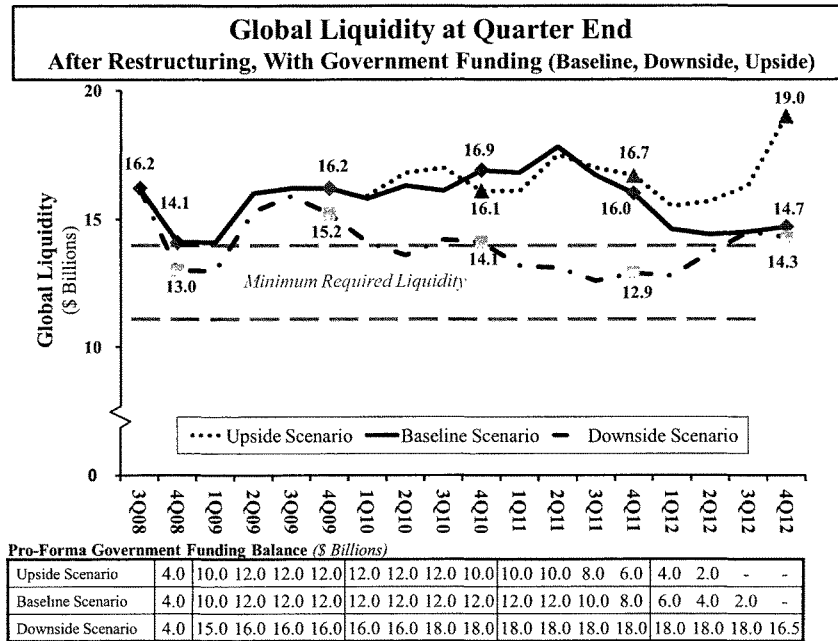


Exhibit C-4: Balance Sheet Summary
Baseline Scenario

| | 2008 | 2012 Pro Forma |
|--|----------------|-------------------|
| Total Debt Including VEBA Related @ 9% Discount Rate | (66.0) | (33.6) |
| EBITDA | (1.1) | 15.3 |
| Interest Expense | (2.3) | (2.7) |
| Book Equity | (65.1) | (30.6) |
| Net Obligations / EBITDA | Not Meaningful | 1.2x |

Exhibit C-5: Balance Sheet Summary
Downside Scenario

| | 2008 | 2012 Pro Forma |
|--|----------------|-------------------|
| Total Debt Including VEBA Related @ 9% Discount Rate | (66.0) | (50.1) |
| EBITDA | (1.1) | 12.1 |
| Interest Expense | (2.3) | (3.4) |
| Book Equity | (65.1) | (43.0) |
| Net Obligations / EBITDA | Not Meaningful | 3.0x |

Exhibit C-6: U.S. Pension Funds Status

\$ Billions

| | 2005 | 2006 | 2007 | 2008* | |
|--|------|-------|-------|-------|-------------------|
| | YE | YE | YE | Q3 | 10/31/08 Estimate |
| <u>Hourly Plans*</u> | | | | | |
| Projected Benefit Obligation | 57.2 | 56.9 | 58.1 | | |
| Plan Assets | 64.2 | 68.5 | 69.8 | | |
| Surplus / (Deficit) | 7.0 | 11.6 | 11.8 | (0.5) | (3.0) |
| Funded Status (%) | 112% | 120% | 120% | | |
| <u>Salaried Plans*</u> | | | | | |
| Projected Benefit Obligation | 30.2 | 27.4 | 26.0 | | |
| Plan Assets | 30.7 | 32.9 | 34.2 | | |
| Surplus / (Deficit) | 0.5 | 5.6 | 8.2 | 3.4 | 1.2 |
| Funded Status (%) | 102% | 120% | 132% | | |
| <u>Total U.S. Qualified Plans</u> | | | | | |
| Projected Benefit Obligation | 87.4 | 84.2 | 84.1 | | |
| Plan Assets | 95.0 | 101.4 | 104.1 | | |
| Surplus / (Deficit) | 7.5 | 17.1 | 20.0 | 2.9 | (1.8) |
| Funded Status (%) | 109% | 120% | 124% | | |

* 2008 information as of Q3 is based on a September 30, 2008 actuarial valuation for the hourly plans and a July 1, 2008 actuarial valuation for the salaried plans. The Q3 valuations were utilized as a basis to estimate pension expense included in financial projections in this submission and the amounts included for pension expense have not been updated for any changes in assumptions, including asset returns and discount rates, since the Q3 valuations. In addition, pension expense in these financial projections has not been updated to include the estimated effect of any of the restructuring or other activities GM may take as part of its restructuring activities. Such changes may result in material changes to the estimates included in these financial projections. The October 31, 2008 estimate is based on internal models and calculations of the funded status of GM's hourly and salaried pension plans as of that date and are not based on actuarial valuations which would include updated assumptions of asset returns and discount rates, among other assumptions

ATTORNEYS GENERAL OF THE STATES OF
VERMONT, CALIFORNIA, CONNECTICUT, MARYLAND,
MASSACHUSETTS, OREGON, AND RHODE ISLAND

November 17, 2008

NOV 21 2008

RECEIVED
U.S. SENATE
NOV 21 2008

The Honorable Nancy Pelosi
Office of the Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Harry Reid
Office of the Majority Leader
U.S. Senate
Washington, DC 20515

Re: Emergency Financial Aid to the U.S. Automobile Industry

Dear Speaker Pelosi and Majority Leader Reid:

The news is full of predictions that only an emergency federal bailout stands between General Motors and a bankruptcy filing. You and other Democratic Congressional leaders are reportedly considering the need for emergency legislation to help G.M. and other automobile manufacturers with the prospect that Congress could take action as soon as this week. For his part, President-elect Obama has telegraphed to the automobile manufacturers and their unions that his support for short-term aid now and long-term assistance later is contingent on their pledge to transform their industry to make cleaner, more energy-efficient vehicles.

We fully support a requirement that any aid to companies like G.M., Chrysler, and Ford be made subject to converting their automobile fleet to meet the nation's current and future energy and environmental needs, including lessening the carbon footprint of their vehicles. But any legislation giving financial support to the auto industry also should be dependent on a commitment by the auto manufacturers to drop their opposition to California's greenhouse gas emission standards and should include legislation that makes clear that California's emission standards for new motor vehicles that have been adopted by States across this country pose no conflict with the Energy Policy and Conservation Act or any other act.

Speaking first-hand about the litigation by the auto industry in Vermont and California, we have seen these groups spend millions of dollars on expert witnesses and legal fees in their lawsuits over the adoption by states of California's Clean Air Act standards. Vermont, with the aid of New York and others, rose to the challenge of defending its regulation in federal district court last year, but the industry has appealed the decision to the court of appeals in New York. Likewise, a California federal district judge also rejected the industry's challenge, but that decision is under appeal, as well.

Emergency Financial Aid to the U.S. Automobile Industry
November 17, 2008
Page 2 of 2

If the U.S. auto industry is serious about taking millions in aid from our pockets, it must show us that it too is serious about global warming and taking a leading (and therefore profitable) role as a producer of fuel-efficient and carbon-sensitive vehicles. Enough money has already been wasted challenging (and defending) laws and regulations aimed at addressing global warming. Addressing climate change is and will continue to be a driving force in our future society and economy. The auto manufacturers should join the states by endorsing and embracing this reality, rather than fighting it.

We believe that congressional action that would include clearing the way for the California greenhouse gas emission standards would send an encouraging message to our nation that Congress has recognized the need both to help the U.S. auto industry and to address our nation's environmental and energy issues. If Congress takes up any short- or long-term financial aid for the automobile industry, we urge you to include legislation to remove any doubt that California's standards are enforceable.

Sincerely,

WILLIAM H. SORRELL
Attorney General of Vermont

EDMUND G. BROWN JR.
Attorney General of California

RICHARD BLUMENTHAL
Attorney General of Connecticut

DOUGLAS F. GANSLER
Attorney General of Maryland

MARTHA COAKLEY
Attorney General of Massachusetts

HARDY MYERS
Attorney General of Oregon

PATRICK C. LYNCH
Attorney General of Rhode Island

cc: President-elect Barack Obama
Honorable Barney Frank
Honorable Carl Levin



Auto Industry – Systemic Risk

- Auto industry is a very significant contributor to the overall economy, but also has an enormous impact on the US financial sector, not just through the three companies' sizable financing arms, but our overall operations
Domestic industry economic impact: revenue is up to \$800 billion annually and 2.5 million jobs
- Detroit three plus their suppliers create a \$1.1 trillion gross exposure to the U.S. financial system and at least a \$650 billion net exposure. This includes debt and obligations to retirees for pensions and healthcare
This financial exposure could have significant implications for a U.S. economy already experiencing -0.3% GDP in Third Quarter and a 6.5% unemployment rate
Increasing the financial sector's negative exposure by up to \$1 trillion and reducing economic activity by up to \$800 billion will greatly exacerbate the current negative economic and financial climate
- For more information go to:

http://www.cargroup.org/documents/FINALDetroitThreeContractionImpact_3_000.pdf



Attachment: Automotive Liabilities

Domestic Original Equipment Manufacturers and Large Suppliers

Key Messages

- Total exposure to financial system from the Detroit 3 plus supply base is between \$650 billion and \$1.1 trillion
 - Includes debt, committed facilities, and post retirement liabilities (pension and healthcare)
- Industry revenue to the economy is estimated at \$805 billion
- Jobs at stake are 2.5 million in OEM's and suppliers only

| (\$ in billions) | OEMs | Top 10 Tier 1 Suppliers | Other Suppliers ^{1/} | Total | Haircut | Net Exposure |
|-----------------------------------|---------------|-------------------------|-------------------------------|-----------------|-------------------|---------------|
| Total Debt | \$ 395 | \$ 24 | \$ 48 | \$ 467 | 25% ^{2/} | \$ 350 |
| Committed Facilities | 230 | 12 | 24 | 266 | 50% ^{3/} | 133 |
| Post Retirement Liabilities | | | | | | |
| - Pension | 169 | 35 | 70 | 274 | 75% ^{4/} | 69 |
| - Healthcare | 92 | 12 | 24 | 128 | 20% ^{5/} | 102 |
| Total Post Retirement Liabilities | \$ 261 | \$ 47 | \$ 94 | \$ 402 | | \$ 171 |
| Automotive Liabilities | \$ 656 | \$ 83 | \$ 166 | \$ 1,135 | | \$ 654 |
| Revenue | \$ 355 | \$ 150 | \$ 300 | \$ 805 | 0% | \$ 805 |
| Employees (000s) | 575 | 659 | 1,318 | 2,552 | | 2,552 |

Impact on Exposure to Financial System Globally

^{1/} Other suppliers equal to two times Top 10 Tier 1 Suppliers
^{2/} Assumes 25% is backed by collateral/assets (recovery value)
^{3/} Assumes 50% is either funded or backed by assets
^{4/} Assumes 75% funded status
^{5/} Assumes 20% is either funded or backed by assets

Sources: OEM & Tier 1 Supplier Liabilities, Goldman Sachs; Other supplier liabilities, Ford estimate. Employee figures, Goldman Sachs & Center for Automotive Research



Collateral Damage

- A concentrated North America supply chain that is heavily reliant on the Detroit 3 ties the financial stability of the OEMs to one another
- The breadth, scale and finance-intensive nature of the automotive sector suggest a much broader impact of OEM instability on the U.S. financial system
 - \$720 billion of debt outstanding directly attributable to the D3
 - Operations highly integrated with the financing markets likely to create a domino effect on broader securitization market and non-auto sectors that depend on access to financing
 - Large number of dependents, both active and retired employees
 - Municipal and State insolvencies, especially in the Midwest
 - Erosion of consumer confidence and faith in U.S. manufacturing
 - Engineering brain drain and loss of key partners in the quest for energy independence
 - Confidence in the effectiveness of the recently announced government bailout programs



U.S. Financial Market Impact

| GM/GMAC Debt = \$384bn ⁽¹⁾ | | Total D3 Debt = \$720bn ⁽¹⁾ | | Investors: | Additional Claimants: |
|---|--|---|--|------------|-----------------------|
| Secured Debt \$47bn Unsecured Debt \$111bn Asset-Backed Debt \$226bn | Secured Debt \$110bn Unsecured Debt \$190bn Asset-Backed Debt \$420bn | Money Center Banks Institutional Investors Foreign Banks Hedge Funds Pension Funds Retail Debt Investors Mutual Funds Retirement Funds Credit Derivatives \$1.25 trillion notional CDS Counterparties (eg. GECC, AIG, Pimco...) | Pension/PBGC Healthcare/OPEB UAW Obligations International Operations | | |
| | | | | | |
| | | | | | |

(1) GM and Ford as of 9/30/08; Chrysler as of 1/31/07



UNIVERSITY OF OREGON

Statement of:

Robert Young, PhD, Planning, Public Policy and Management (PPPM)
 Marc Schlossberg, PhD, Planning, Public Policy and Management (PPPM)
 Nico Larco, AIA, Department of Architecture
 Sustainable Cities Initiative
 University of Oregon

To the House Financial Services Committee, Hearing on Auto Industry Stabilization Plans
 Committee on House Financial Services 2129 Rayburn House Office Building Washington DC 20515

December 3, 2008

Mr. Chairman Barney Frank, Ranking Member Spencer Bachus, and Members of the Committee:

Thank you for the opportunity to speak to you about the auto industry stabilization plans and the critical issue of the future of transportation in this nation. We very much appreciate the opportunity to provide testimony to this Committee. We feel that these hearings are vital not only for exploring the immediate needs of the nation's automobile industry, but also for laying the groundwork for investments that will insure its long-term success through the development of personal transportation technologies that support both sustainable communities and a globally competitive economy for the nation.

The three of us represent a group of faculty from the Sustainable Cities Initiative at the University of Oregon, but also represent faculty of similar commitment across the country. The Sustainable Cities Initiative is engaged in both researching and assisting the transition to truly sustainable communities. As both academics and practitioners we are interested in the future of communities large and small and how their changing form will impact the types of transportation needs of the future. We believe that to truly stabilize the auto industry for the long term, the industry must be able to anticipate community change and provide transportation products for the 21st century that the world will both need and require.

The current calls to support the immediate financial needs of the automobile industry are joined by demands that the industry produce "greener" technologies in the form of lower emission and more fuel-efficient products. Some are taking the demand further: that the federal government and private auto industry should invest in a broader mix of transportation technologies and fuel sources. **We agree that these approaches can contribute to the short-term stabilization of the auto industry. However, it is our position that in order for investments by the federal government and the auto industry to be successful over the medium-term and in the global marketplace, there is vital necessity for a much deeper understanding of the relationship between personal mobility technologies and new types of sustainable community design emerging across the United States and the world. Securing this understanding and connecting it to technology development within the auto industry and policy development within the federal government will be critical for the medium and long-term success of the auto industry and the investments made in it by the federal government.**

Limits of the Current Debate

Presently, the changing economy, rising and unstable fuel prices, and public demand for "greener" transportation technology options are driving not only the decline in automobile and truck sales but also an emphasis on a shift



to more environmentally friendly vehicles in the form of hybrids and more fuel-efficient cars and trucks. While useful, this call for greener technologies does not recognize the transformations in city and community design that these same trends are generating. Communities across the United States and throughout the world are rapidly embracing new efforts to transform their basic infrastructure, regulations, and design to support a greater degree of sustainability by reducing their reliance on single occupancy cars and trucks *as we know them today*. As a result, market demand for contemporary single occupancy vehicles, even of the greener stripe, will be increasingly limited by these changes in community design.

However even those who call for these innovations toward sustainable communities often do so in a rote fashion, naming a series of transportation alternatives without acknowledgement of the fact that high-tech personal transportation systems are a factor of community life that is unlikely to vanish. While the importance of mass-transit and bicycle and pedestrian mobility are rightly emphasized, the space between human-powered and mass transit is often left unaddressed.

The result is that investments in both the current auto industry and efforts to implement sustainable transit systems are being committed without a detailed understanding of the new forms of community design that are emerging and the implications and impacts these forms will have on the auto industry's future markets. Therefore, investing in the means to understand these impacts should accompany efforts to support the viability of the auto industry in the United States.

Connecting Mobility Markets to Sustainable Communities

General Motors understands this need when it stated in its recent proposal to Congress:

"Strategic partnerships among Government, industry and academia to develop appropriate green mobility products in response to shifting energy resources, consumer demand for greener transportation, promising advanced technology and new community design will be key to meeting the Nation's energy and environmental objectives."

Investing in the capacity for collaborative partnerships between the public, private, and academic sectors to examine this nexus among sustainable communities, personal transportation technologies, and market impacts and trends should be a fundamental part of efforts to stabilize and support the auto industry. Such investments can connect cutting-edge, university research in sustainable community design and governance with auto industry technology development. By promoting this partnership, the federal government can insure the security of the federal government's investment and the industry's longer-term success while laying the groundwork for the auto industry's return to global competitive advantage.

Precedent and Proposed Actions

Similar partnerships between the public, private and academic sector formed the foundations of the new federal transportation policies that emerged in the first half of the twentieth century. Through these partnerships an effective strategy of decentralizing over-congested city centers, establishing the interstate highway system, and integrating transit policy as a driver of the longest period of economic growth in the nation's history was achieved. Since that time new challenges have arisen requiring new partnerships to address present concerns. Our nation now faces a different set of public and environmental health, mobility, and economic growth issues upon which the future prosperity and quality of life of all Americans depends.



In considering new investments in the nation's auto industry, Congress should establish an effective, contemporary collaboration between academia and the industry by funding collaborative research centers at universities with the capacity to examine issues of sustainable urban planning, green development, and industrial product design. The centerpiece of this collaboration should be the interface between sustainable communities and the future of personal transportation technologies and green mobility. Participating universities should have interdisciplinary expertise in green communities and policies, urban design, and a strong focus on transportation and community livability to test and evaluate new community design and policy approaches and their impact on future transportation markets. Enabling greater understanding and communication on these issues between researchers and designers in the academic and private sector will strengthen both the competitive advantage of the nation's auto industry and the development of more sustainable communities throughout the United States and the world.

The state of Oregon provides an excellent example of the value generated by such partnerships. Oregon's coordinated approach to transportation, design, and technology issues has created communities that are repeatedly identified as among the most livable in the United States. Collaboration between the academic, public, and private sector has produced innovative solutions in transportation design and public policy and supports the nation's highest per capita market for advanced technology vehicles and hybrids.

Conclusion

We would like to thank the Committee again for holding these hearings and providing us with an opportunity to provide testimony on these issues. By holding these hearings the Committee is providing an important forum for the discussion, not only of the immediate health of the U.S. automobile industry, but also of the policy directions and investments that should form our transportation infrastructure over the coming century. In order to take the fullest advantage of this opportunity we encourage the Committee to consider the medium and longer-term stability and competitiveness of the industry as a vital component of this discussion. **We further encourage the Committee to consider the merits of funding public-private, collaborative university research centers where leading academic research in sustainable communities can be brought into partnership with the auto industry to anticipate and take advantage of the new markets in personal transportation technologies created by the transition toward sustainable communities.**

Thank you for the consideration of our testimony.

Robert Young, PhD, Planning, Public Policy and Management (PPPM)
 Marc Schlossberg, PhD, Planning, Public Policy and Management (PPPM)
 Nico Larco, AIA, Department of Architecture

MAXINE WATERS
 MEMBER OF CONGRESS
 35TH DISTRICT, CALIFORNIA
 CHIEF DEPUTY WHIP
 COMMITTEES
 FINANCIAL SERVICES
 SUBCOMMITTEE ON HOUSING AND
 COMMUNITY OPPORTUNITY
CHAIRWOMAN
 JUDICIARY
 SUBCOMMITTEE ON CRIME, TERRORISM
 AND HOMELAND SECURITY
 SUBCOMMITTEE ON IMMIGRATION,
 BORDER SECURITY AND CLAIMS

Congress of the United States
House of Representatives
 Washington, DC 20515-0535

December 5, 2008

Mr. G. Richard Wagoner Jr.
 CEO, General Motors
 300 Renaissance Center
 Detroit, MI 48265

Dear Mr. Wagoner:

Thank you for testifying before the Financial Services Committee today. As I mentioned during my questioning, I am extremely concerned about how your restructuring plans will affect small dealerships, especially minority dealerships. Therefore, I request that the National Association of Minority Automobile Dealers be included in any negotiations with all entities referred to by Mr. Gettlefinger in his testimony today.

Please contact Charla Ouertatani of my staff with any questions about this request.

Sincerely,

Maxine Waters
 Member of Congress

PLEASE REPLY TO
WASHINGTON, DC OFFICE
 2344 RAYBURN HOUSE OFFICE BUILDING
☐ WASHINGTON, DC 20515-0638
 PHONE: (202) 225-2201
 FAX: (202) 225-7854
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 10124 SOUTH BROADWAY
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 FAX: (323) 757-9506
WESTCHESTER OFFICE
 6033 WEST CENTURY BOULEVARD
 SUITE 807
☐ LOS ANGELES, CA 90045
 PHONE: (310) 642-4610
 FAX: (310) 642-9160

MAXINE WATERSMEMBER OF CONGRESS
35TH DISTRICT, CALIFORNIA

CHIEF DEPUTY WHIP

COMMITTEES:
FINANCIAL SERVICESSUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY
CHAIRWOMAN

JUDICIARY

SUBCOMMITTEE ON CRIME, TERRORISM
AND HOMELAND SECURITYSUBCOMMITTEE ON IMMIGRATION,
BORDER SECURITY AND CLAIMS**Congress of the United States**
House of Representatives
Washington, DC 20515-0535

December 5, 2008

Mr. Robert Nardelli
CEO, Chrysler, LLC
1000 Chrysler Dr.
Auburn Hills, MI 48326-2766
United States

Dear Mr. Nardelli:

Thank you for testifying before the Financial Services Committee today. As I mentioned during my questioning, I am extremely concerned about how your restructuring plans will affect small dealerships, especially minority dealerships. Therefore, I request that the National Association of Minority Automobile Dealers be included in any negotiations with all entities referred to by Mr. Gettlefinger in his testimony today.

Please contact Charla Ouertatani of my staff with any questions about this request.

Sincerely,

Maxine Waters
Member of Congress

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WASHINGTON, DC 20515-0535
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MAXINE WATERS

MEMBER OF CONGRESS
35TH DISTRICT, CALIFORNIA

CHIEF DEPUTY WHIP

COMMITTEES
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SUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY
CHAIRWOMAN

JUDICIARY

SUBCOMMITTEE ON CRIME, TERRORISM
AND HOMELAND SECURITY

SUBCOMMITTEE ON IMMIGRATION,
BORDER SECURITY AND CLAIMS

Congress of the United States
House of Representatives
Washington, DC 20515-0535

December 5, 2008

Mr. Alan Mulally
President and CEO, Ford Motor Company
1 American Rd.
Dearborn, MI 48126-2798

Dear Mr. Mulally:

Thank you for testifying before the Financial Services Committee today. As I mentioned during my questioning, I am extremely concerned about how your restructuring plans will affect small dealerships, especially minority dealerships. Therefore, I request that the National Association of Minority Automobile Dealers be included in any negotiations with all entities referred to by Mr. Gettlefinger in his testimony today.

Please contact Charla Ouertatani of my staff with any questions about this request.

Sincerely,

Maxine Waters
Member of Congress

PLEASE REPLY TO

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JOHN LEWIS
5TH DISTRICT, GEORGIA

SENIOR CHIEF DEPUTY
DEMOCRATIC WHIP

COMMITTEE ON
WAYS AND MEANS

CHAIRMAN,
OVERSIGHT SUBCOMMITTEE

INCOME SECURITY
AND FAMILY SUPPORT



Congress of the United States
House of Representatives
Washington, DC 20515-1005

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SUITE # 1920
ATLANTA, GA 30303
(404) 658-0116
FAX: (404) 331-0947

December 1, 2008

Mr. Richard Wagoner, Jr.
General Motors
300 Renaissance Center
Detroit, MI 48265

Dear Mr. Wagoner:

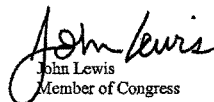
As you and your colleagues prepare a plan to protect the solvency of an important industry, I request that you include special measures to protect minority-owned businesses. They are an integral part of the General Motors family.

In the past ten years, GM African American-owned dealerships nationwide have closed at twice the rate of non-minority owned dealerships. This is a staggering statistic. The treatment of African-American owned automobile dealerships was raised by my colleagues during the House Financial Services Committee hearing last month, and I hope that this targeted assistance is an integral component of your plans regardless of Congressional or the Administration's actions. There are a variety of measures that may be adopted to restructure businesses at the most basic level and to help those enterprises that have been disproportionately affected.

Today, the National Bureau of Economic Research announced that the U.S. economy has been in a recession since December 2007. Georgia and the Southeast, similar to the Midwest, are suffering from the economic downturn. Seemingly every month the situation worsens. Unemployment steadily increases, while federal, State, and local governments struggle to provide assistance to retrain and reemploy dislocated workers. Keeping workers employed and small businesses operating is essential. Small businesses are the backbone of the U.S. economy; many provide livable-wage jobs with health care and other benefits that are critical to hardworking families.

Many minority automobile dealerships have been committed to domestic manufacturers despite difficult times. They should be offered, at the very least, the same solutions as other partners in your corporation. I thank you for attention to this critical issue and look forward to your response.

Sincerely,


John Lewis
Member of Congress

CC: House Financial Services Committee

GM Minority Dealers Statistical Data

Years 1974 to 2008

| Year | Total GM | Total Minority Rooftops | Percent Minority to Total | African American Rooftops | Hispanic Rooftops | Native American Rooftops | Asian American Rooftops |
|------|-------------|-------------------------------|---------------------------------|---------------------------------|----------------------|--------------------------------|-------------------------------|
| 1974 | 12,939 | 110 | 0.9 | 31 | 43 | 34 | 2 |
| 1975 | 12,721 | 105 | 0.8 | 28 | 39 | 34 | 4 |
| 1976 | 12,663 | 116 | 0.9 | 36 | 43 | 35 | 2 |
| 1977 | 12,578 | 128 | 1.0 | 40 | 45 | 40 | 3 |
| 1978 | 12,494 | 136 | 1.1 | 41 | 45 | 43 | 7 |
| 1979 | 12,315 | 142 | 1.2 | 49 | 48 | 40 | 5 |
| 1980 | 11,700 | 156 | 1.3 | 61 | 54 | 35 | 6 |
| 1981 | 11,401 | 162 | 1.4 | 66 | 50 | 36 | 10 |
| 1982 | 10,842 | 159 | 1.5 | 60 | 55 | 34 | 10 |
| 1983 | 10,683 | 162 | 1.5 | 64 | 54 | 32 | 12 |
| 1984 | 10,568 | 174 | 1.6 | 74 | 54 | 33 | 13 |
| 1985 | 10,403 | 187 | 1.8 | 93 | 52 | 29 | 13 |
| 1986 | 10,233 | 208 | 2.0 | 114 | 51 | 27 | 16 |
| 1987 | 10,065 | 199 | 2.0 | 110 | 48 | 25 | 16 |
| 1988 | 9,923 | 208 | 2.1 | 114 | 50 | 27 | 17 |
| 1989 | 9,687 | 202 | 2.1 | 104 | 50 | 28 | 20 |
| 1990 | 9,425 | 176 | 1.9 | 77 | 53 | 27 | 19 |
| 1991 | 9,075 | 192 | 2.1 | 80 | 57 | 29 | 26 |
| 1992 | 8,836 | 187 | 2.1 | 75 | 59 | 27 | 26 |
| 1993 | 8,667 | 207 | 2.4 | 84 | 66 | 31 | 26 |
| 1994 | 8,555 | 248 | 2.9 | 98 | 80 | 39 | 31 |
| 1995 | 8,462 | 258 | 3.0 | 100 | 81 | 44 | 33 |
| 1996 | 8,307 | 275 | 3.3 | 107 | 91 | 43 | 34 |
| 1997 | 8,090 | 280 | 3.5 | 109 | 94 | 45 | 32 |
| 1998 | 8,118 | 294 | 3.6 | 114 | 97 | 46 | 37 |
| 1999 | 7,826 | 290 | 3.7 | 112 | 96 | 45 | 37 |
| 2000 | 7,831 | 329 | 4.2 | 113 | 119 | 49 | 48 |
| 2001 | 7,761 | 349 | 4.4 | 116 | 130 | 53 | 50 |
| 2002 | 7,577 | 387 | 5.1 | 129 | 149 | 55 | 54 |
| 2003 | 7,462 | 377 | 5.0 | 119 | 160 | 48 | 52 |
| 2004 | 7,591 | 365 | 4.8 | 101 | 165 | 50 | 49 |
| 2005 | 7,200 | 359 | 5.0 | 95 | 158 | 52 | 54 |
| 2006 | 7,036 | 344 | 4.8 | 87 | 150 | 53 | 54 |
| 2007 | 6,653 | 353 | 5.3 | 89 | 162 | 47 | 55 |
| 2008 | 6,500 | 324 | 4.9 | 78 | 150 | 42 | 54 |

*Source: Automotive News, GMMDA and GM Dealer Development



BUICK PONTIAC GMC INC.
 "ATLANTA'S DRIVING CHOICE"

{page 1 of 2}

Joe Chrzanowski
 Executive Director, Industry Dealer Affairs
 General Motors Corporation
 100 Renaissance Center
 Mail Code: 482-A05-C66
 Detroit, MI 48265

November 17, 2008

Dear Joe:

The purpose of this letter is to make my final request to dual the open Lilburn Chevrolet point with Baranco BPG in Lilburn, Georgia. In lieu of this, I am requesting that General Motors repurchase the BPG operation including the real estate.

Two years ago, after the closing of the Chevrolet on Highway 78 in Lilburn, Georgia, I began a series of meetings with my regional management team including Dave Borchelt, Tom Mudry, Brad Flaaen, Garret Dvorsky and recently Marty Raymond and Doug Stapleton, to discuss the dualing of the open Chevrolet point with Baranco BPG. The reason for my request was to add the needed thru put to make the BPG store profitable.

At no point in these discussions was it mentioned that there was not sufficient Chevrolet market potential for this area. In fact, it was not until August of 2008 that Tom Mudry called to say that the Chevrolet opportunity represented only 180-200 additional sales, and therefore it was not in GM's best interest to dual Chevrolet with Baranco BPG.

After repeated unsuccessful attempts to get GM management to reconsider and grant the dualing of Chevrolet and BPG in Lilburn, I am now specifically requesting that GM repurchase the BPG operation and real estate, which was purchased from GM in November of 2007.

While my preference is to remain a GM dealer, because of the lack of profit opportunity for Baranco BPG alone, this dealership will cease to exist by the 31st of December 2008. In order to provide reasonable notice to my employees and vendor partners I would appreciate a written final response by the close of business November 21, 2008.

As a General Motors franchise dealer, I understand GM's need to look after its own interest – especially in these perilous times. However, in President Elect Obama's interview on 60 minutes last evening he stressed that any "bailout" plan that might be made available to General Motors, would have to protect "ALL" stakeholders. He also made a specific reference to "a sustained US automobile industry". Obviously, President Elect Obama understands that in order for General Motors to be a sustainable industry in America, all of its stakeholders must be considered. So far, GM seems to have forgotten that its Dealer body is one of its most important stakeholders.

Please know that after 30 years as a GM Dealer I fully support the long term success of General Motors. However, given the totality of the circumstance herein described, I feel this request is more than reasonable. I will await your response.

Sincerely,



Gregory T. Baranco

Enclosures: 3

Cc: Rick Wagoner
Dave Borchelt
Tom Mudry
Brad Flaaen
Garret Dvorsky
Henry Ware



General Motors

Dealer Network Planning & Investments

Mr. Gregory T. Baranco
President and Dealer Operator
Baranco Pontiac-GMC, Inc.
4355 Highway 78
Lilburn, GA 30047

November 21, 2008

Dear Greg:

This letter is in response to your request that General Motors repurchase the BPG operation and real estate of Baranco Pontiac-GMC, Inc. dba Baranco Buick Pontiac GMC in Lilburn, GA, as stated in your letter addressed to GM Executive Director Joe Chrzanowski, dated November 17, 2008. You requested a written response on or before November 21, 2008. I have been asked to respond on behalf of General Motors.

General Motors has reviewed your request and it has determined that it will not repurchase the Baranco Buick Pontiac GMC operation and real estate. We understand that this is not the decision you hoped for and that, as an independent business operator, you will be evaluating certain options for the Baranco dealership.

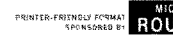
Also, please be advised that General Motors has again reviewed the Chevrolet sales and registration data for Lilburn, GA and the surrounding area, and we stand by our earlier determination that there is not sufficient market opportunity to support the re-establishment of Chevrolet representation in Lilburn by allowing Chevrolet to be added at the current Baranco Buick Pontiac GMC facility or in a separate dealership sales facility.

We trust you will understand that we have carefully considered both of your requests before coming to these decisions.

Sincerely,

Martin J. Raymond
DNPI Director - Southeast Region

cc: Joseph A. Chrzanowski
Bradley D. Flaaen
Garret B. Dvorsky



November 30, 2008

Auto Dealerships Teeter as Big Three Decline

By CLIFFORD KRAUSS

QUINCY, Fla. — Bruce Thomas washed cars at his father's General Motors dealership here at age 12, changed oil in high school, and sold his first Pontiac during college.

His commitment to a famed American industry, part business and part romance, never waned. He took over his family's two dealerships, building a small fortune. In turn, he showered generosity on local churches, school athletic teams, charity golf tournaments and a group that helps women find jobs out of prison.

But suddenly, all of Mr. Thomas's success appears to be melting away.

Days go by without a sale. His debts are mounting. His friends offer him cash to get by. "I'm trying to survive as a car dealer," said Mr. Thomas, now 59, "and I don't know if I can."

Top executives of the Big Three automakers are preparing to return to Washington this week with business plans they hope will lead to a federal bailout. But any government help will probably come too late for thousands of dealers like Mr. Thomas who sell American brands.

They have been struggling for years, as Detroit's fortunes waned, but what remains of their sales is evaporating along with consumer confidence and credit.

The National Automobile Dealers Association predicts that roughly 900 of the nation's 20,770 new-car dealers will go out of business this year, and automobile analysts say the number of failed dealerships could rise into the thousands next year.

Even if Ford, Chrysler and G.M. survive, many believe a comeuppance is inevitable among dealerships; indeed, for years the nation has had more dealers for domestic brands than warranted by the sales volume of the Detroit automakers.

The economic toll of a mass failure of dealerships around the country has already begun to harm the broader economy. In October alone, 20,000 employees of auto dealerships lost their jobs nationwide, more than half of those who were newly unemployed in the retail trade, according to the Labor Department.

The auto dealers association estimates that new-car dealers produce a \$54 billion annual payroll for 1.1 million workers and nearly 20 percent of the retail sales and sales taxes in small and large communities alike.

The auto dealers are not just businesses, of course. Most of them are deeply rooted in their communities, and each is a slice of Americana — their big flags flying, their radio advertisements compelling attention and their Little League sponsorships and other charity helping to improve the lives of local people.

http://www.nytimes.com/2008/11/30/business/30dealer.html?_r=1&sq=November 30 Auto... 12/5/2008

In this small town outside Tallahassee, Mr. Thomas had 50 employees only two years ago when his two dealerships sold an average of 24 new vehicles a month. But now Mr. Thomas is lucky if he sells three new vehicles a week, and he has had to dismiss 10 of his remaining 40 employees in recent days.

Salesmen at Mr. Thomas's two dealerships — one selling Chrysler-Dodge-Jeep cars and the other General Motors models — are so idle, they spend their time doing Sudoku puzzles, reading sports magazines and calling and writing old clients. They repeatedly implore the mail carrier to buy a car on mornings when he is the only one to come in the door.

Calmly resolute, Mr. Thomas spends his days talking to lawyers and bankers, trying to keep his business alive. Mr. Thomas has lost a lot of money in an investment in a cousin's Georgia dealership, but many of his problems appear to be not of his making.

The last couple of years of rising gasoline prices took the steam out of the market for his Dodge Ram 2500 heavy pickup trucks and GMC Yukon sport utilities. In recent months, gasoline prices came down, but unemployment began rising here. The weak economy has hurt farmers, government workers and others. Quincy's middle class is hurting because of plummeting values for homes and stocks.

And now the credit market — the lifeblood of any car dealership — is frozen. Finance companies have tightened credit both for car buyers and for dealerships like Mr. Thomas's that stock their showrooms with vehicles bought on credit. The car companies are delaying some payments to dealers because of their own problems.

Mr. Thomas has gotten behind in payments to GMAC, G.M.'s financing arm, so the company sent a representative to his dealerships two weeks ago to take control of the keys of new cars on his lots to guarantee that GMAC is paid when any vehicles are sold.

Mr. Thomas has stopped ordering new vehicles, and he is relentlessly cutting costs, including his own salary. He is slashing medical benefits and matching funds for the retirement accounts of his remaining employees. He has stopped giving free oil changes and tires to charities, stopped offering coffee to customers and even canceled janitorial services for the bathrooms.

Gathering workers for a pep talk in the service garage of his G.M. dealership the other day, Mr. Thomas said, "We are going to fight hard to keep everything going we can, but there are things that could go out of control." As the employees fidgeted, he added, "Let's try our best to sell a car today."

Salesmen are passing out their résumés to visitors, and they say they are not sure they will get paid from one week to the next.

"You have to laugh to keep from crying these days," Lynn Mayo, the office manager at the G.M. dealership, said as she wiped away tears. "The whole mess is hard."

The downturn has been years in the making. Mr. Thomas's total sales, including repairs and used cars, fell to \$26 million in 2007 from \$32 million in 2005. This year he hopes sales will reach \$20 million based largely on stronger business during the first half. During the last two months, sales and repairs hit a wall.

It is a big comedown for a business that began with Mr. Thomas's father, Howard, who came to Quincy after World War II to start a used-car business across the street from a Chevrolet dealer. Howard Thomas was so successful, the Chevrolet dealer bought him out and brought him into the new-car business as a manager.

In 1967 Howard Thomas bought half of the local Pontiac-GMC store, and 12 years later it became a Thomas family operation run by him and his son. The business expanded to two dealerships and became a major benefactor to the local Little League team, theater and other charities. More than 400 people attended Howard Thomas's funeral in February. The business has long been the biggest retail employer in the town after Wal-Mart, and has produced \$1 million in sales taxes annually in recent years.

Local officials say they know Mr. Thomas is in trouble, and they fear the consequences of his going out of business. "It would be a huge tragedy for us," said Quincy's mayor, Andy Gay, whose first job after getting married was selling cars at a Thomas dealership.

Mr. Thomas's business is a microcosm for the whole industry. At least 70 percent of the dealerships that have closed so far this year sell American cars, and better than 60 percent of the remaining dealerships sell the troubled Detroit brands. "A lot of them will go out of business," predicted Rex Henderson, an auto analyst at Raymond James & Associates.

"We have never seen anything like this," said Denny Fitzpatrick, owner of a Chevrolet-Hummer dealership outside Oakland and chairman of the California New Car Dealers Association. Having already dismissed 56 of his 114 employees, Mr. Fitzpatrick added, "You lay awake at night trying to figure out how to keep these doors open."

Car dealers are not entirely blameless for their fate. Auto analysts say they did not push Detroit hard enough to build better-quality, more efficient cars. They note that the dealers lobbied hard in state capitals for laws to protect their franchises from the Detroit manufacturers who wanted to limit their numbers and determine their locations.

Mr. Thomas lays some blame on the unions that drove hard bargains with the automakers, some on a news media that "glorified" imports, and some on the Big Three for being "slow to react to the market and what the public wanted," especially when gas prices rose in recent years.

To compensate, Mr. Thomas said he had changed his inventory the last couple of years to include fewer trucks and sport utilities, adding more fuel-efficient vehicles like the Pontiac G6. He shifted his advertising away from newspapers to the Internet. He gradually reduced his business' charitable giving, once \$30,000 a year, to \$1,900 this year.

He has begun a radio campaign offering zero percent financing on all his 2008 Chrysler, Dodge and Jeep vehicles for 36 months, and savings of up to \$12,000 on Yukon XLs.

But sales have not budged.

Speaking in an office decorated with antique golf clubs, autographed baseballs and a photograph of his grandfather posing beside a 1952 Buick Roadmaster, Mr. Thomas said he had no major regrets.

"As a kid I dreamed about cars," he said. "The business has changed and the cars have changed, and it's been fun to be part of that."

But he said he saw more trouble ahead.

"At this point, I see no light at the end of the tunnel," he said, closing his eyes for a moment to think. "I only see it getting worse. Any bailout to Detroit will take a while to get to Main Street."

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QUESTIONS FOR MR. WAGONER, MR. NARDELLI AND MR. MULALLY**Question 1**

In a recent interview with NBC News, President Bush said, "No matter how important the autos are to our economy, we don't want to put good money after bad. In other words, we want to make sure that the plan they develop is one that ensures their long-term viability for the sake of the taxpayer."

Yesterday, as you may know, Senate Majority Leader Harry Reid, House Speaker Nancy Pelosi, Senate Banking Committee Chairman Chris Dodd and House Financial Services Committee Chairman Barney Frank sent a letter to President Bush to again urge him to use the authority provided under the Troubled Assets Relief Program (TARP) of the Emergency Economic Stabilization Act (EESA) of 2008 to provide limited, temporary assistance to the automobile industry during this financial crisis.

In their letter, they wrote: "The response from the Treasury to date has been that these funds should only be used to protect the U.S. financial sector. What is becoming clear, however, is that the failure of the Big 3 would indeed have a major direct and negative impact on the financial sector, not just on the economy as a whole."

What steps have any of your businesses taken to impress upon the Bush Administration the urgency of your situation, the impact a bankruptcy of any one of your companies would have on our economy and the immediate need to access the TARP funds, currently available for these purposes, to provide the emergency bridge loan your long-term plans are dependent on?

Question 2

What recourse will the American taxpayer have if your short and long-term plans for these emergency loans do not work?

Some have discussed that in exchange for these loans, a federal oversight board should be appointed to monitor the use of the funds and execution of these plans. Given the emergency, would it make more sense for President-elect Obama to appoint an auto rescue czar, ensuring there was one point person to implement these plans and ensure taxpayer funds are being used for their intended purpose?

Question 3

If an agreement cannot be reached soon on fully funding your combined \$34 billion request, how would you see a smaller funding package work for your respective companies? Let's say the funding would be enough to ensure your solvency to March 2009; would that not also give your companies time to negotiate how to restructure your debt and negotiate with the UAW?

Question 4

Each of your companies has submitted detailed, long-term business plans, but how do your auto suppliers fit into this equation for a fully viable and profitable U.S. auto market? What specific actions could be initiated to encourage U.S. automotive suppliers to develop advanced, electrical drive technologies that would also be manufactured in the U.S.? How do we encourage these suppliers to develop plug-in hybrid drive technology for popular vehicles such as the Ford F-150 pickup and the GM Sierra 1500?

Answer 1: We have had extensive contact with the Administration and Congress to explain the devastating consequences for workers, retirees, dealers, suppliers, auto communities, and the national economy from the bankruptcy of just one U.S. automaker. The auto industry is highly interdependent. In particular, the collapse of one or both of our domestic competitors threatens Ford because we have 80 percent overlap in supplier networks and nearly 25 percent of Ford's top dealers also own GM and Chrysler franchises. The Center for Automotive Research estimated that the bankruptcy of one of the Detroit automakers would result in more than 2.5 million jobs lost in just the first year. Companies would not simply reorganize under Chapter 11 and emerge as smaller, more viable companies. Instead, there would be a Chapter 7 liquidation.

The impact of a bankruptcy also reaches beyond Ford and the U.S. auto industry. It would cause further stress to our domestic banking industry and private retirement systems. Goldman Sachs estimates the impact at about \$1 trillion. We believe that bankruptcy is not an option and the TARP was designed to avert such a possibility. We will continue to work with all interested parties to make sure the effects of bankruptcy are not only understood, but averted.

Answer 2:

The government has an important fiduciary responsibility when utilizing taxpayer resources. Ford hopes it will not need to utilize government loans, but IF we do, we would provide significant information regarding our business to any Oversight entity that Congress or the Administration may establish whether it is in the form of a board or an individual car 'czar'.

Ford regularly provides financial and other information in publicly-filed reports to SEC, NHTSA, EPA, and PBGC. In addition to our publicly-filed reports, we would submit periodically to any Oversight Board information on:

- our progress, and projected future progress, in meeting the performance goals and milestones of our plan;
- our progress in improving our capacity to pursue the timely and aggressive production of energy-efficient advanced technology vehicles and in meeting federal fuel efficiency requirements;
- our executive compensation plans (to demonstrate compliance with the provisions of the legislation);
- our progress in preserving and promoting U.S. auto jobs, [consistent with our plan for financial viability];
- funding of retirement and health care benefits for our retirees and their dependents; and
- our efforts to strengthen our balance sheet over time to reduce our debt and repay any government loans

In order to allow these reports to be as inclusive as possible, we strongly recommend that Congress afford the opportunity where appropriate for information

submitted to the Oversight Board to be protected from public disclosure as confidential business information.

Answer 3: While we supported the emergency government loans for U.S. automakers facing a liquidity crisis, Ford is in a different position. In December 2006, we went to the markets and obtained \$23.5 billion in financing that has been critical to implementing our restructuring plan. At the same time, we have divested brands including Aston Martin, Jaguar, Land Rover, and part of Mazda and other non-core businesses, generating \$3.7 billion in additional capital to reinvest in the business. As a result, we do not face a near-term liquidity crisis and we are not seeking short-term financial assistance from the government. What we are requesting is access to a bridge loan of up to \$9 billion as a safeguard in case economic conditions should deteriorate beyond our assumptions. Our hope is to never need to access these funds. If economic conditions deteriorated and Ford needed to access a bridge loan, we, of course, would meet any conditions of this taxpayer loan.

Answer 4: The best way to help suppliers is to make sure that their domestic manufacturing customers remain in operation. There is no way to keep a viable domestic auto supplier base without retaining a healthy domestic auto manufacturing industry. Certainly, encouraging R&D into new advanced technologies, like next generation batteries for plug-in vehicles will help keep suppliers and the manufacturers at the forefront of auto technology. Still, it first requires that there is a domestic customer for these technologies.

Questions

Question 1

You have come before the Committee today asking for \$34 billion in federal loans. These funds are intended to keep your respective businesses afloat. However, this will not directly help you sell more cars tomorrow or the day after that.

I know that Senators Mikulski and Bond and Representative Pascrell and LaTourette have introduced bipartisan legislation (H.R. 7273) which will allow new car purchasers to deduct sales tax and interest payments from their purchase through the end of 2009, the same way they can deduct home mortgage interest.

Do you believe that the government needs to offer incentives to consumers in order to get them to start buying cars again? Would you support such initiatives?

Question 2

The National Automobile Dealers Association (NADA) estimates that over 700 new car dealerships will close by the end of 2008. About 40,000 jobs will be lost just due to the fact that retail sales fell over 18% to 568 billion from 693 billion.

Dealership wages account for 13% of the retail payroll. Can you please tell us how your new business models will give direct assistance to dealerships across the nation? What steps will each of you take to provide protection to these vulnerable auto dealerships?

Question 3

Each of the three manufacturers here has offered large incentives to get buyers into showrooms and yet because of the credit crisis sales have not been spurred.

What can the federal government do to get buyers back into the showrooms and back to buying cars?

Answer 1: With consumer demand at historic lows, the government's support of incentives would work to help increase sales in the near-term. We support the Mikulski-Bond-Pascrell-LaTourette legislation and other proposals that would spur consumer demand, including an initiative called Fleet Modernization that would provide incentives to take old vehicles off the road and replace them with new, fuel-efficient vehicles. This initiative would deliver on four bipartisan goals: bolstering the U.S. economy, helping consumers, improving the environment and reducing the country's dependence on foreign oil.

Answer 2: Returning credit markets to normal operation is the single biggest way to help dealers because it will allow for efficient financing for their customers and their own inventories. Through Ford Motor Credit, Ford has continued to offer a full range of financing products to dealers and customers using the same prudent standards and practices we have relied upon for years. Through various economic cycles, Ford Credit has been a consistent source of funding, financing about 77% of Ford vehicles acquired by dealers, and about 40% of Ford vehicles sold by those dealers to customers. That said, the government can certainly play a large and constructive role in addressing the underlying problem we all face: the failure of normal credit market operations. Programs like the Commercial Paper Funding Facility (CPFF) have proven very useful and we are hopeful that the proposed Term Asset Backed Securities Loan Facility (TALF) program for medium-term asset backed securities (ABS) will be designed to be equally successful. To that end, we have been working extensively with Treasury and the Federal Reserve to make modifications that will maximize this program's value. We are also seeking FDIC approval of our application to establish an industrial bank, which would further diversify our funding sources. We encourage action by the Federal Reserve and the federal government to restore liquidity to the financial markets.

Answer 3: Ford is excited about the progress we are making on the things customers really care about. Our quality is second to none. We have the most 5-star rated vehicles for safety. Our goal is best-in-class fuel economy with every new vehicle we introduce – including the new Ford Fusion Hybrid which beats Toyota Camry Hybrid by 7 mpg. We have delivered the quality, safe, fuel-efficient, advanced technology vehicles that customers want. But the troubled economy and job losses are driving down consumer demand. We would suggest two approaches to help get buyers back into the showrooms. First, we would recommend a focus on consumers incentives, including fleet modernization - an initiative aimed at getting old and less fuel efficient vehicles off the road and replacing them with newer, greener ones. Second, we would urge steps to make sure that the credit markets, on which the auto industry depends heavily, are working normally and efficiently. Ultimately, we need a broad and sustained economic recovery to bring sales volumes back to the levels we have historically seen.

January 9, 2009

House Committee on Financial Services

Responses to follow up questions from a hearing on December 5th entitled "Review of Industry Plans to Stabilize the Financial Condition of the American Automobile Industry."

Question 1

Do you believe that the government needs to offer incentives to consumers in order to get them to start buying cars again? Would you support such initiatives?

Chrysler has historically supported incentives to help create a market for the purchase of vehicles, especially advanced technology vehicles which tend to be more expensive. Chrysler will continue to support such a strategy to spur sales, however, Chrysler does not believe that incentives alone can solve the current crisis which was caused by the financial crisis and resulting lack of credit for our dealers and consumers. Until our consumers and dealers primarily have access to credit, incentives alone will not be effective.

Question 2

Dealership wages account for 13 percent of the retail payroll. Can you please tell us how your new business models will give direct assistance to dealerships across the nation? What steps will each of you take to provide protection to these vulnerable auto dealerships?

Dealership employment is affected by (1) the overall automotive retail volume, and (2) the structure of the retail network across the United States. While we cannot independently and directly create a positive shift in automotive retail volume, we do have influence over the structure (dealer count, location, size, facility, area of responsibility) of the retail dealer network.

With US automotive retail volume experiencing a steep decline, the associated dealership employment will also experience a related decline. While we cannot force independent dealers to retain employees no longer supported by the current volume, we are doing a number of things to minimize the employment loss.

The best defense from excessive dealership employment loss is a profitable dealer network. The current automotive retail volume is simply too low to sustain profitability in all of the current dealership outlets. With the depressed retail volume in mind, the most effective tool to encourage profitability is to consolidate the remaining volume through fewer retail outlets. While this does mean the loss of dealer outlets, the remainder will have a more viable business model, higher volume per outlet (throughput),

be financially stronger, and therefore, more able to sustain themselves through this and subsequent economic downturns. A financially stable dealership is more likely to retain their employee count. To this end, "Project Genesis" has been in place to optimize the dealer network to the retail automotive volume since 2004.

Project Genesis assists our independent dealers during this time of resizing by utilizing demographic and sales planning data to determine the most viable number of dealerships, facility needs, and geographic area of responsibility for each market area across the US. While our dealers are independent operators, we do help facilitate the negotiations between proposed buyers and sellers. We also determine which locations will or will not be backfilled when an existing dealer exits their business. Through these appointments of desired locations, we can control the number of dealerships in a given geographical market through natural attrition and negotiated location closures.

As of December 31, 2008 the Chrysler dealer network count was 3,297. This represents a count reduction of 288 dealers for the calendar year of 2008. Since January 1, 2005, the dealer count has been reduced by 703. We plan to continue our network resizing efforts into 2009 and beyond. Due to the severe volume downturn, we are undergoing a review of our network plans to adjust the network outlet count and disbursement across the US. This will maximize the chances of creating a dealer network with a sustainable level of profitability, and therefore; a more stable employment environment.

Question 3

What can the federal government do to get buyers back into the showrooms and back to buying cars?

The main reason that consumers are not buying cars was caused by the financial crisis which has made it difficult for consumers to get loans to buy cars. More than 90 percent of vehicles are purchased using some type of financing. Therefore, the best way to get consumers back into the showrooms is to make sure that our consumers have access to credit by restoring liquidity to the credit markets including Chrysler Financial, our finance arm.

Due to the frozen capital markets, Chrysler Financial is unable to obtain new financing to replace maturing public ABS wholesale financing. As a result, CF's Wholesale Inventory Facilities were fully drawn down the end of 2008 and the ability to finance new shipments will be severely limited.

As of December 31, 2008 US retail facilities were fully drawn. This is causing a severe financial hardship to both Chrysler and our dealers. Given the severity of the unexpected capital market collapse and its impact on Chrysler Financial, on November 5th CF sought assistance under the \$700B TARP facility. This was to access capital to provide new retail loans to consumers seeking to purchase Chrysler automobiles and provide wholesale inventory financing to company's automotive dealership customers. We are currently in discussions with Treasury officials regarding our TARP application.

Without installment loan funding availability under the retail facilities with its lenders, and access to the Public Retail ABS Market, CF will no longer be able to originate consumer loans beyond the current facilities limit, and will be forced to exit the consumer retail financing business in a similar way it has already exited the lease business.

Question 4

What, if any response have you had from Treasury regarding your application? What would be the implications on the proposal you presented today if the TARP funds are not approved? Is receiving TARP funds an important part of your company's overall plan for long term viability?

We are currently in daily discussions with Treasury officials regarding our TARP application and expect to have an imminent response. If TARP funds are not approved for Chrysler Financial we anticipate that we will not be able to provide loans to provide floor plans to our dealers or for consumers to purchase our vehicles. The chain reaction caused by the locked up credit markets could have a disastrous impact on the future of both Chrysler and Chrysler Financial.

Question 5 (1 on second round)

What steps have you taken to impress the urgency of your situation upon the Bush Administration? Describe the impact of bankruptcy on our economy and the immediate need for TARP fund to create an emergency bridge loan for long term plans.

Chrysler executives have worked very closely with Bush administration officials throughout this process. Bob Nardelli, CEO of Chrysler LLC and Tom Gilman, CEO of Chrysler Financial have explained the urgency of our situation to Secretary Gutierrez at Commerce, Secretary Paulson at Treasury and various White House officials. In addition, the Company filed forward-looking financial and product documents to support its plan and create a better understanding of the submission. This additional information -- which has been made available to Congress -- has been

treated confidentially due to its proprietary nature, but it has been reviewed by Commerce and Treasury officials. The bankruptcy option is almost incalculable due to broad effects on the entire industry given the supply base.

Question 6 (2 on second round)

What recourse will the American taxpayer have if your short and long term plans for these emergency loans don't work? Would the oversight of a Car czar make sense to provide federal oversight?

We are extremely mindful of the American taxpayer's investment in the future of this company. Conditioned loans to the domestic auto industry will enable vital restructuring, while protecting the American taxpayer. On January 2, 2009, Treasury provided a three-year \$4 billion loan to Chrysler Holding LLC (Chrysler) under the new AIFP. The loan is secured by various collateral, including parts inventory, real estate, and certain equity interests held by Chrysler. This agreement requires Chrysler to submit a restructuring plan to achieve long-term viability for review by the President's designee and provides for acceleration of the loan if those goals are not met. The agreement includes other binding terms and conditions designed to protect taxpayer funds, including compliance with certain enhanced executive compensation and expense-control requirements. Furthermore, Treasury received a senior unsecured note of Chrysler payable to Treasury in the principal amount of \$267 million.

- Chrysler will use these funds to become financially viable. Taxpayers will not be asked to provide financing for firms that do not become viable. In the event that Chrysler has not attained viability by March 31, 2009, the loan will be called and all funds returned to the Treasury Department.
- According to the terms, Chrysler will only be considered viable if it has a positive net present value, taking into account all current and future costs, and can fully repay the government loan.
- The President's designee will oversee the progress of Chrysler's plan for viability on behalf of the federal government including approval of all significant expenditures. If the President's Designee does not find that the goals have been met, the loan will be automatically accelerated and will come due 30 days thereafter. This agreement also includes other binding terms and conditions designed to protect taxpayer funds, including compliance with certain enhanced executive compensation and expense control requirements.

President Bush said that "the only way to avoid a collapse of the U.S. auto industry is for the executive branch to step in. The American people want the auto companies to succeed, and so do I. These loans will provide help in two ways. First, they will give automakers three months to put in place plans to restructure into viable companies -- which we believe they are capable of doing. Second, if restructuring cannot be accomplished outside of bankruptcy, the loans will provide time for companies to make the legal and financial preparations necessary for an orderly Chapter 11 process that offers a better prospect of long-term success -- and gives consumers confidence that they can continue to buy American cars.

The terms of the loans will require auto companies to demonstrate how they would become viable. They must pay back all their loans to the government, and show that their firms can earn a profit and achieve a positive net worth. This restructuring will require meaningful concessions from all involved in the auto industry -- management, labor unions, creditors, bondholders, dealers, and suppliers.

In particular, automakers must meet conditions that experts agree are necessary for long-term viability -- including putting their retirement plans on a sustainable footing, persuading bondholders to convert their debt into capital the companies need to address immediate financial shortfalls, and making their compensation competitive with foreign automakers who have major operations in the United States. If a company fails to come up with a viable plan by March 31st, it will be required to repay its federal loans.

The automakers and unions must understand what is at stake, and make hard decisions necessary to reform. These conditions send a clear message to everyone involved in the future of American automakers.

By giving the auto companies a chance to restructure, we will shield the American people from a harsh economic blow at a vulnerable time. And we will give American workers an opportunity to show the world once again they can meet challenges with ingenuity and determination, and bounce back from tough times, and emerge stronger than before."

Question 7

How would you feel about a smaller funding package (original was 34 billion)? Would funding through March 2009 give you enough time to negotiate how to restructure your debt and negotiate with the UAW?

A smaller package was agreed upon in negotiations with the Bush Administration. GM and Chrysler LLC were provided with \$13.4 billion in short-term financing from the TARP. An additional \$4 billion will be made available in February, contingent upon drawing down the final tranche of TARP funds.

Chrysler will work diligently to meet March 31st deadlines to restructure debt and negotiate with the UAW however there are a number of other parties involved in these negotiations. As Bob Nardelli said in his testimony, "These requirements will require consideration from all constituents, requiring commitment first in principal, leading to implementation this coming year. Chrysler is committed to meeting these requirements."

The binding terms and conditions established by the Treasury will mirror those that were supported by a majority of both houses of Congress, including:

- Firms must provide warrants for non-voting stock.
- Firms must accept limits on executive compensation and eliminate perks such as corporate jets.
- Debt owed to the government would be senior to other debts, to the extent permitted by law.
- Firms must allow the government to examine their books and records.
- Firms must report and the government has the power to block any large transactions (more than \$100 million).
- Firms must comply with applicable Federal fuel efficiency and emissions requirements.
- Firms must not issue new dividends while they owe government debt.

The terms and conditions established by Treasury will include additional targets that were the subject of Congressional negotiations but did not come to a vote, including:

- Reduce unsecured debt by two-thirds via a debt for equity exchange.
- Make one-half of Voluntary Employee Beneficiary Association (VEBA) payments in the form of stock.
- Eliminate the jobs bank.
- Work rules that are competitive with transplant auto manufacturers by December 31, 2009.
- Wages that are competitive with those of transplant auto manufacturers by December 31, 2009.

These terms and conditions would be non-binding in the sense that negotiations can deviate from the quantitative targets above, providing that the firm reports the reasons for these deviations and makes the business case that it will achieve long-term viability in spite of the deviations. In

addition, the firm will be required to conclude new agreements with its other major stakeholders, including dealers and suppliers, by March 31, 2009.

Question 8

Each of your companies has submitted detailed, long-term business plans, but how do your auto suppliers fit into this equation for a fully viable and profitable U.S. auto market? What specific actions could be initiated to encourage U.S. automotive suppliers to develop advanced, electrical drive technologies that would also be manufactured in the U.S.? How do we encourage these suppliers to develop plug-in hybrid drive technology for popular vehicles such as the Ford F-150 pickup and the GM Sierra 1500?

- I. **Our supply base is experiencing issues very similar to those being experienced by the OEMs: drastically reduced volumes, stranded capacity, limited or no access to credit. Given the size and diversity of the automotive supply base, consolidation and capacity rationalization will likely take longer than for the OEMs. Some form of government or industry coordination could accelerate the consolidation process and restore the industry's financial health more quickly. Government actions to improve supplier's access to credit would also help. Lenders are getting out of lending to the automotive sector and even those that are still lending are heavily discounting OEM receivables. The lack of credit access is causing many suppliers to request that OEMs provide help with cash, which deteriorates the already tight cash position of the OEMs. Chrysler wants to work productively with its suppliers to address these issues, but Chrysler cannot, by itself, improve the health of its suppliers. The average profitability of automotive suppliers is likely at historical lows.**
- II. **In recent years, automotive electric motor suppliers have not been U.S. based, although some manufacture motors here. The best opportunity to develop a US based supplier might be created by providing incentives for a US electric motor manufacturer (e.g. GE or Emerson Electric) to develop automotive products via tax credits, grants, or other mechanisms. Industry wide standardization of architecture and specifications would also be helpful along with possibly joint development arrangements among multiple OEMs for common powertrain platforms. This would create higher initial production volumes which would enable suppliers to more easily amortize the very high up-front R&D costs.**
- III. **Development of hybrid electric or plug in hybrid technology can best be encouraged by creating a market environment within which there will be demand for such vehicles. As we have seen in the past 12 months, fuel prices can very significantly and quick influence consumer buying patterns. There have been significant demand shifts into and out of hybrid vehicles in the past year. Given that the investments required to**

develop and manufacture hybrid technology are very significant, and the corresponding engineering efforts take years, companies need some certainty that there will demand for hybrid components and vehicles when they are launched. A predictable, long run fuel price environment, possibly created by tax policy, would go a long way to spur demand. Utilizing tax or other financial incentives for consumers who purchase vehicles with the new technology will also increase demand.

